103

LEGISLATIVE PROPOSALS TO PROVIDE FINANCING ASSISTANCE FOR PROJECTS FOSTERING ECONOMIC DEVELOPMENT AND JOB CREATION

HEARING

BEFORE THE

SUBCOMMITTEE ON
ECONOMIC GROWTH AND CREDIT FORMATION

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

JUNE 22, 1994

Printed for the use of the Committee on Banking, Finance and Urban Affairs

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Wednesday, June 22, 1994

APPENDIX

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LEGISLATIVE PROPOSALS TO PROVIDE FINANCING ASSISTANCE FOR PROJECTS FOSTERING ECONOMIC DEVELOPMENT AND JOB CREATION

WEDNESDAY, JUNE 22, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ECONOMIC GROWTH
AND CREDIT FORMATION,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 2 p.m., in room 2222, Rayburn House Office Building, Hon. Paul E. Kanjorski [chairman of the subcommittee] presiding.

Present: Chairman Kanjorski, Representatives Klein, Velazquez, and Fingerhut.

Chairman KANJORSKI. The subcommittee will come to order.

This afternoon the subcommittee will examine several legislative proposals to provide new financing tools to assist in the creation of new jobs and the promotion of economic development.

As many are aware, this is a subject in which the subcommittee has a keen interest. In the course of numerous hearings over the last 2 years, we have been told time and again that important changes are occurring in our understanding of the impediments that many distressed communities face in trying to revitalize their economies.

It is increasingly recognized by many State and local governments that infrastructure development, as important as it is, is simply not sufficient to successfully implement a strategy to promote economic development and facilitate the creation of new jobs.

Frequently, the critical element which determines success or failure of economic development efforts is the availability of business financing assistance. Despite this growing realization, the Federal Government lags behind many States in providing this often vital assistance. In my opinion, this seriously handicaps the effectiveness of our overall economic development efforts.

Today's hearing will focus on four legislative proposals to address this shortcoming. First, Representative Klein has introduced H.R. 3853. This bill would authorize the Secretary of the Treasury to participate in or guarantee loans made by banks and other qualified lenders for businesses with potential for expansion and growth and for other viable economic development projects.

I want to commend Mr. Klein for introducing his bill, H.R. 3853, to create a new financing tool to stimulate job creation, private in-

vestment, and economic development. Throughout his tenure on the Economic Growth Subcommittee, Congressman Klein has consistently shown great vision and a dedication to create new employment opportunities for all Americans.

He has demonstrated an enormous capacity for thinking through some of our economy's most intractable problems and for proposing new and innovative solutions. I am confident that any economic development and jobs creation legislation considered by this subcommittee will incorporate many of his ideas.

Second, we will examine H.R. 2191, introduced by our colleague, Representative Jim Traficant of Ohio. This bill would authorize the Secretary of Housing and Urban Development to carry out a demonstration project to make grants available to community development corporations for reducing interest rates on loans for economic development activities in five federally designated enterprise zones.

Mr. Traficant is well known for his tenacious efforts to defend American jobs from unfair foreign trading practices and for his commitment to working men and women across this country. I should also note that H.R. 2191 was jointly referred to both this subcommittee and to the Subcommittee on Housing and Community Development.

As he knows, in the version of the Housing Reauthorization bill reported out of that subcommittee and recently approved by the full Banking Committee, many of the objectives of H.R. 2191 are reflected in that legislation. I commend him for his foresight and leadership in this area.

Third, we will hear from the Assistant Secretary of Commerce for Economic Development, the Honorable William Ginsberg, on proposed legislation drafted by the Clinton administration to provide new loan guarantee authorities for the Economic Development Administration. As the Assistant Secretary knows, similar provisions were adopted by this subcommittee and passed by the full Banking Committee as part of its version of H.R. 2442, reauthorizing the EDA. Unfortunately, the version of that bill which was ultimately brought to the House floor only provided for a study of the new EDA financing tools.

The Assistant Secretary was only just confirmed as this subcommittee completed its work on EDA's reauthorization legislation. While I have had the pleasure to have numerous conversations with Mr. Ginsberg, this will be his first opportunity to testify before the subcommittee. So we welcome the Assistant Secretary and look forward to a continued cooperative relationship as we attempt to work through these issues.

Finally, all of today's witnesses have also received a copy of draft legislation prepared by the subcommittee staff. In addition to sharing their views on the first three legislative proposals, they have also been asked to comment on the draft legislation and to address the broad issues of the need for new tools and direction in Federal economic development programs.

The draft legislation would authorize the Secretary of Commerce to conduct four demonstration programs for financing assistance for economic development. These demonstration programs would focus on loan guarantees, interest rate subsidies, equity financing, and

credit enhancements to securitize economic development loans for the secondary market.

I want to welcome all of today's witnesses and thank them for taking the time from their busy schedules to share their thoughts with us.

It is now my pleasure to recognize Mr. Klein of New Jersey.

[The prepared statement of Mr. Kanjorski can be found in the appendix.]

STATEMENT OF HON. HERBERT KLEIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. KLEIN. Thank you very much, Mr. Chairman, and members of the subcommittee. First of all, Mr. Chairman, I want to thank you not only for holding this hearing today on the various legislative proposals to provide financial assistance for projects fostering economic development and job creation, but I particularly want to thank you for your outstanding leadership in this whole area of job creation and economic development.

It seems to me that there is an irony in our present economic situation, because on the one hand, we have the big companies, the Fortune 500, the Fortune 1000 companies. Those companies, if we look at their employment rolls, we see that they are dwindling, that they are shrinking. And yet, in the past 1½ years, we have found that we have created new jobs.

Where are those new jobs being created? Who is creating them? It is the small- and medium-sized companies of this country that are creating the new jobs in the private sector.

The irony, however, lies in the fact that in order to create new jobs, and in order to grow, and in order to fuel the engine for economic growth, you need credit. And the big companies, the ones that are not creating new jobs, have virtually unlimited access to credit, whereas the ones that are creating new jobs, the small- and medium-sized companies, they are the businesses that have difficulty obtaining credit.

Banks are more cautious in lending money to businesses of that kind. Frequently, they will not make loans at all. And in those cases, where the banks will make loans, they are very reluctant to lend as much money as is often required or necessary for the company to proceed with its growth projects to the full extent anticipated.

In addition to that, the large capital markets, the financial markets, Wall Street, are very willing to provide funding for big business and very, very loathe to provide funding for smaller businesses.

Because of that, I have made a proposal contained in H.R. 3853, the Economic Revitalization Act of 1994.

And I want to applaud the work of the subcommittee in searching for innovative and at the same time cost-effective ways to help our urban and rural communities as well as the entire Nation grow and prosper. All of the indicators point to the fact that our economy is improving, but I believe we can and should do more.

One of the key elements of a strong economy is reduced unemployment and our small- and medium-sized businesses, as I noted, are this Nation's greatest source of new jobs. Unfortunately, the

growth of those same businesses has been severely restricted by the credit crunch.

My bill would encourage banks to increase lending to small- and medium-sized businesses for the purpose of job creation. To encourage such loans, it would give the Secretary of the Treasury the authority to enter into partial loan guarantees or loan participation agreements and to issue securities backed by a pool of such loans. In each case, a bank or other private lender would also participate in the loan.

The program is designed to pay for itself. To fund the loans, the bill would authorize the issuance of bonds which would not—I emphasize not—be obligations of the United States. The Secretary would be authorized to charge fees to cover the costs of the program.

I am sure you have heard from a number of small business owners who would like to expand their current operations—expansions that would result in additional jobs and increased community investment. Yet, many of those owners cannot obtain loans from conventional lending institutions. The program my bill establishes will help address this very serious problem.

I know that this approach will work because it has worked. It is modeled after a very successful program already in effect in my own State under the authority of the New Jersey Economic Development Authority.

And I can tell you that the New Jersey EDA Program has had enormous success in making loans under essentially the same kind of program.

They have not only been able to fund many new business projects, but in addition to that, it has been in effect for a long enough period of time so that we have had an opportunity to see what the effects of the program have been.

And the effects of the program have been twofold. First, numerous jobs have been created as a result of this program, and second, the program has been very, very profitable to the EDA and the fees have produced revenue which far exceeds the costs of the program and any projected default rates that may occur.

So we know we have a model that will work and I believe that it is one that we should adopt and adapt to the broader national scope and make it part of our legislative scheme for economic development.

Let me again thank you, Mr. Chairman, for agreeing to focus attention on the needs of our communities. I would be pleased to answer any questions you might have about my legislation.

Thank you very much.

[The prepared statement of Mr. Klein can be found in the appendix.]

Chairman KANJORSKI. Mr. Klein, in your legislation, you call for this to be done by Treasury. Would you have any objection if the authority was given to the Economic Development Administration?

Mr. KLEIN. I would have no objection to it being done by the Economic Development Administration. The reason why I suggested Treasury is, first of all, I wanted to avoid the creation of any new entity or new authority because I didn't want to have administrative expenses attached to the program.

And, second, I felt that the Secretary of Treasury was in a good position, through his Department, to make judgments about the validity of loans. But if there is an infrastructure already in effect in the EDA, I certainly would have no objection to making that the appropriate agency.

Chairman KANJORSKI. Some of the experience we have had in dealing with Treasury is that they do not desire any more responsibility than they presently have. I know we have been working with them on our Secondary Market bill, and they have almost treated it with great fear that they may be called upon to do more and have more responsibility, so I have a tendency to believe that they are not the most aggressive Department of this government.

And, on the other hand, I think there is some promise that we have seen from Commerce that they may want to play a much more aggressive role in job creation, and of course, that is yet to be probably seen in the long term, but at least there is strong indications of that there. So we are looking at trying to find the most receptive areas to provide that.

Do you have some questions?

Ms. VELAZQUEZ. Just one question. I just would like to ask Mr. Klein how many jobs do you estimate H.R. 3853 can help create?

Mr. KLEIN. I think I can best answer the question, Congresswoman Velazquez—I think I can best answer the question by telling you that the New Jersey Economic Development Authority has created several hundred thousand new jobs in New Jersey alone, and if you project that over the Nation, I think you can be talking in terms of millions of new jobs.

Ms. VELAZQUEZ. I really welcome your legislation because at a time when we are discussing welfare reform, this is the way to go in terms of increasing job opportunities, so I really congratulate you.

Mr. KLEIN. Thank you very much.

Chairman KANJORSKI. You know, there are several job creation suggestions floating around and pieces of legislation, and I certainly think that yours will be ultimately one of them that will help mold into this package, but I think Herb, just as an aside between you and I, I think we have to be sure that we marshal the attention of the administration on this. They seem to be strong on health care reform and welfare reform, but we have got to create jobs or all of these things are meaningless to us.

And I do not think any of us in the Congress are looking for the short-term, fast stimulus jobs. We know they do not work out. We are looking for long-term opportunity jobs and I think you have your hand right on the point. It is not the Fortune 500 that we are going to be looking to but the small- and medium-sized businesses and the entrepreneurs that go into business that need the venture capital or the loans to expand that are going to create the opportunities.

I happen to be one of the members that engages even with the minority community sometimes against set-asides because I do not think that is long term, sustainable, something to look at. I think that most Americans, whether they have the opportunity to be in business now or want that opportunity, are looking for opportunity.

And you cannot have opportunity if you don't have venture capital and you do not have the ability to get started.

So I applaud your piece of legislation and we will certainly take it into the package that we are dealing with. And you are part of the committee, so I know your ideas are going to be folded in and will be part of the ultimate legislation.

Mr. KLEIN. Well, thank you. Just to respond very briefly—because we do have a vote—to your thoughts about the administration, I have discussed the proposal with several key members of the administration. And, certainly, I will aggressively attempt to persuade them to support it.

One thing that would—we ought to take heed of is the fact that this truly is a proposal that will cost no money. It is a proposal that will pay for itself and the record in New Jersey proves that that is so.

Chairman KANJORSKI. Well, I compliment you on it.

I do think that we have that vote. Everyone that is waiting to be witnesses, if you will stand by, we will recess and go vote and then we will return and pick up from that point.

Mr. KLEIN. Thank you, Mr. Chairman. And thank you Nydia.

[Recess.]

Chairman KANJORSKI. The subcommittee will reconvene.

We have with us, as I said in my opening statement, I wanted to introduce Mr. Traficant, but he was not in the room. From long experience, I know that if you do not indicate where you stand with Mr. Traficant, you may pay a terrible price.

He has been one of the most tenacious representatives of working men and women in the United States, and through his tenure since he came to Congress with me 9½ years ago, he is very famous for calling it the way it is and being very direct in his support of American jobs and opportunity.

And when we have talked about his particular piece of legislation in the past, it impressed me in its consistency with his long-term philosophy of creating jobs and fundamental jobs. So the fact that we have the opportunity to have him before our subcommittee today to enlighten us and the record, we appreciate it.

Jim, as a fellow classmate, welcome to the Economic Growth Subcommittee and we will accept your opening statement.

STATEMENT OF HON. JAMES A. TRAFICANT, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. TRAFICANT. Honored to be here with you, Mr. Chairman. We came in together and I hope we stay awhile. It is good to see you and Eric Fingerhut, my neighbor to the north and a new Member. I ask unanimous consent that my written and prepared statement be incorporated into the record.

Chairman KANJORSKI. Without objection. So ordered.

Mr. TRAFICANT. I would like to talk in general terms about my legislation, H.R. 2191, an economic development loan assistance type program. I think what we have been doing with the cities, and I represent an area where we lost the steel industry and—Eric is very familiar with that—55,000 jobs that average about $14 to $16 an hour with full benefits and we have been scrambling to find

some jobs and they have been averaging $6 an hour with few benefits in the interim.

And we, like many other areas in the country, are facing these problems, and Uncle Sam has tried to come in with some grant programs and they give it to local politicians and it was thrown out with revenue sharing and urban development action grants. And I supported all of those, but there was a basic flaw. The basic flaw was that politicians were making decisions on economic development and finance and they didn't understand it.

The Traficant bill is a reflection of the philosophical concept that I have that I believe will work. We don't have enough money to solve all of these problems. We have limited money. So my recommendation is to provide limited money to those organizations that could qualify real private sector development and let the banks use this qualification to assist them in making the loan.

And when the banks make the loan to an individual or an organization that can create jobs, this program would then come in to buy down interest rates and it would come in the form of an incentive or leverage to entice bank money to many of these communities where it has been deserved.

With that in mind, if you would like a look at it, mine would target two things. We are talking about Federal enterprise zones that have been created in several pieces of legislation, 71 for urban areas and 33 for rural areas with the respective HUD and Department of Agriculture Secretaries working in those particular veins.

The Traficant bill would provide up to $100 million over 3 years, $33 million a year. That can be targeted toward community development corporations that are in fact created and developed within these enterprise zones who would then be able to use this grant money to buy down interest rates when that bank, Community Development Corp., and banking process makes that loan.

It can be used for a number of specific things: Construction and rehabilitation of housing, which is very important to many communities; downtown and neighborhood commercial revitalization; industrial development; redevelopment and job creation; small and minority business service; and assistance, neighborhood marketing, training, technical assistance, research, planning, and any other activities that fall within a scope that would create some jobs.

I believe it is best to work with community development corporations, Mr. Chairman, but this bill is open for amendment and its major goal is to advance the concept of providing money to buy down interest rates and to leverage private sector money and involve the finance community of bankers who understand dollars and can qualify risk for true economic development.

I think, though, that CDCs have some flexibility with their investments, and they are, by law, basically promulgated to increase opportunities in these depressed areas. I had this attached to a couple of bills in the past which you are familiar with. Once it was attached to one of the Banking bills and it was dropped in conference. It was once attached to an EDA bill that never got appropriated because the Authorization bill was never signed into law. And that is spanning a period of about 7 years.

So I know that your concern has been one of trying to find ways to utilize the limited funds that we have, and that is exactly what the Traficant bill will do.

There is a distinguished gentleman from my district here, Donald French, executive director of the Mahoning Valley Economic Development Corp. They are not a CDC, but I am sure if this became a law, that they would be tied in with that. Mr. French is going to be one of your witnesses and he has done an outstanding job.

You don't have a ton of money. I want to use it to buy down the interest rates and I want the banks to start opening up and lending money. They basically held back money from communities that needed it the most. We should be leveraging that and have strict oversight and reporting mechanisms on this type of activity and that is the basic thrust of it.

Any improvement the committee would make, if CDCs are too restrictive, there are an awful lot of good community groups that could function here, but I don't want it to be a social service program. I want it to be a dollar program and an investment program with strict investment qualifications and the competency that involves the evaluation of fair risk assignment for those private sector dollars that would be leveraged by incentive money in the form of buydowns that this legislation would create.

That is it in a nutshell, and I appreciate your help on it.

[The prepared statement of Mr. Traficant can be found in the appendix.]

Chairman KANJORSKI. Jim, if I may ask you, do you have any firm position on the fact of whether it would be HUD or Treasury or EDA that could administer this type of program?

Mr. TRAFICANT. I think if it is going to be broad-based, it would probably be a program for HUD. I think HUD has the experimentation to monitor it and to put it into motion, but it would make absolutely no difference to me as long as we didn't make it so stratified that it had little or no impact that could be more measured. Whatever the committee felt might be best.

Chairman KANJORSKI. And you also direct it toward the enterprise zones, and so forth. If we put it as part of a demonstration project in the country and left it up to the agency that is administering it to make the determination rather than restricting it to the enterprise zones, what I am worried about is that we have very restrictive conditions in the enterprise zones that really may not target areas like your community so that your community may end up not qualifying for it.

Whereas if we put it in a broader demonstration project, it may be qualified to many, many communities and projects around the country above and beyond those that are designated as enterprise——

Mr. TRAFICANT. Let me say this. It is my idea, it is my district. And I don't want my district left out.

Chairman KANJORSKI. OK. Well, that is the best answer we could——

Mr. TRAFICANT. I mean, I am coming right to the point. I think it is a good program for the entire country and my area is a microcosm of many of the failed policies of both the U.S. Government

and some of the private sector initiatives that have gone awry, maybe from some of the policies that we have or have not enacted, Mr. Chairman. Whatever way you can improve it.

Some of the ideas that you had are conceivably fine with me, but I don't want legitimate communities through some demographic data perversion to get screwed, like my community. I mean, right to the point. So I don't see how we couldn't qualify but I would not want to see other communities like mine be left out as well.

Chairman KANJORSKI. Congresswoman Velazquez.

Ms. VELAZQUEZ. No questions.

Chairman KANJORSKI. Did I hear Mr. Fingerhut from Ohio say it would be all right if Mr. Traficant's district was left out?

Mr. FINGERHUT. No. What you were about to hear him say was that we need to be sure that these criteria are broad enough so that all the communities of need are addressed. Let me echo what the chairman said at the beginning of this hearing.

Mr. Traficant is really a leader on these issues and, as a freshman, I have tried to follow his lead on this question. And my concern is the same one that you are addressing right now, Jim, and that is how we decide where we make these projects available. As you know, I have a pretty diverse district.

I have some very, very wealthy areas with successful folks in them that don't need that kind of help right now, but then I have some areas and those are the ones that are close to the area that you represent, where this subcommittee went and held a hearing on precisely this subject which desperately need this help.

And every time I see ideas like this, I am supportive of them, but I tighten my stomach when they start talking about pilot projects and only in certain designated areas, because we all know there are a lot of places that need this help.

So that is my concern along with yours that however we draw these boundaries, that this idea be available for the places that need it.

Mr. TRAFICANT. I appreciate that. My response would be that whatever trigger language you would place in a mechanism like that would become law that would open it up and make it effective for broad participation, I would support it.

I am not trying to limit it because I have hardship thinking that I can't miss. That is not my goal. My goal is to advance the concept of buying down interest rates and leveraging the private sector in getting it done the old-fashioned way where people who take a risk go to the bank and are qualified by the people who understand money and the dynamics of investment and that we in fact generate that and try to direct to areas that need it—that need it.

Whatever language it is, it is completely open and flexible. It brings forward a concept that I think can and will work. And I will look for any improvement or fairness in it that you can provide.

Mr. FINGERHUT. Let me raise one other point, if I can, Mr. Chairman, because we come from the same area and really all of us here have some of the same concerns, and you know we lost entire plants up in Ashtabula just like you lost them down in the Mahoning Valley.

And we have been spending a lot of time in this Congress talking about trade. We had the NAFTA debate and we are going to have

a GATT debate and all sorts of other trade issues that are coming up. And I think as we start to refocus on trade, the media has been delving into the recent stories about wage rates from around the world.

And we have from western Pennsylvania the story about the Leslie Fay Clothing Factory. What are we going to do, really? How much would we need to buy down interest rates or subsidize private sector investment to compensate for the fact that there ain't no way that our folks can work for 41 cents an hour or $1.50 an hour, whatever the high end of the wage is? You mentioned that you had people that went from $16 an hour down to $6 an hour. That is, if they can find it.

I continue to despair if we are going to watch American companies chase this, how something that we do is going to be able to help. Since you and I talk about this a lot and we come from the same area, I am anxious to hear how you are feeling about it.

Mr. TRAFICANT. This is a drop in the bucket, literally; $100 million. But I think it can leverage up to $1 billion in 3 years if that is used wisely by the Congress. What I think that we have to do is change our Tax Code to strictly predicate on income. We, basically, reward dependency in the country. And we penalize hard work and achievement.

I would recommend that the Congress advocate a flat tax and couple it with a consumption tax of some sort and tax the second economy in this country, and it would force savings. Those savings could be used for commercial revitalization in the form of commercial reinvestment in banks the old-fashioned way and make sure that the banks are not redlining.

I think that Mr. Kanjorski has distinguished himself in attacking some of these problems with legislation. I commend him for that. It hasn't been easy. I think now we are trying to see if we could open up some monies. I am just trying to think of an idea to make that happen.

But I think we should reduce income taxes significantly, couple it with a consumption tax. I think it would reward our exports. It would not reward imports as our system does now. And I think we are in a trick bag every 5 years of taxes and we have dug a very deep hole. And I have learned one thing down here in these short years: When you find yourself in a deep hole, stop digging.

I hope that my measure would provide some capital. I don't think that all of these rearrangements of deck chairs is going to stop this Titanic from going down if we don't overhaul the system by which we attract revenue. We keep talking about spending but we better reform revenue in this country.

Chairman KANJORSKI. We had a GAO study done since the downturn of the Defense Department, and we have about 100 billion dollars' worth of material that has to be sold off and gotten rid of. And last year we got rid of 12 billion dollars' worth of material and we got a return of 3 and 4 cents on a dollar. So we have gotten $300 and $400 million back on 12 billion dollars' worth of property.

Next year, we are going to get rid of $15 billion. If we get the same 3 percent back, we will get $450 million. And the following year will be $17 billion, and if that follows, then we will get about

$460 million back. And the final year, we are looking at $20 billion. And at this rate, we will get about $600 million back.

Now, if we just had a way of doubling the percent of return, rather than getting 3 or 4 percent return, we were able to get 6 to 8 percent return, we would have more than a half a billion dollars a year every one of those years to invest in economic development.

So if I could make a point for the record, it is not only that we have to concentrate on revenue sources and methodology of raising more money, we also have to concentrate on demanding that this government be more efficient in how it gets rid of property and that the sale of that property could be easily used as an economic tool. And if we fail to recognize that, over the next 5 to 10 years and with the tremendous downturn of the Defense Department, we are going to have lost a lot of that wealth that could have gone to economic development.

Mr. TRAFICANT. And I remember voting with you on those issues and a lot of leaders were not with you. And we did pass those votes and I think that program works. We have got to open it up for everyone's ideas, and sometimes we close off ideas in Congress. And that is not good. I hope that my idea is not shut off in file 13 and we will get a shot.

Chairman KANJORSKI. If you did not hear my statement, so that you know it and whoever is on your staff knows it, your legislation was referred not just to our subcommittee but the Housing Subcommittee in the Banking Committee and that committee incorporated some of your ideas in the new Housing bill that has already moved through the full committee on the way to the floor.

You can take pride that you have been a major innovator that HUD is instructed under that legislation to carry through on. You are already a part winner, even if you do not do anything here.

Mr. TRAFICANT. Thank you very much. Thanks for having me.

Chairman KANJORSKI. Let the record show that when Mr. Klein was here, we had attempted to have representatives of New Jersey Economic Development Authority testify but they had a conflict of interest. So that they may provide their outstanding testimony for the record, we are going to keep the record open, and anyone else who may have something else to add to the record over the next 2 weeks should take the opportunity to put their statement or testimony before us.

Next, we have the pleasure of hearing from the Assistant Secretary for Economic Development, the U.S. Department of Commerce, the Honorable William Ginsberg.

Welcome, Mr. Secretary, before the subcommittee.

STATEMENT OF WILLIAM GINSBERG, ASSISTANT SECRETARY FOR ECONOMIC DEVELOPMENT, U.S. DEPARTMENT OF COMMERCE

Mr. GINSBERG. Thank you, Mr. Chairman. Distinguished members of the subcommittee, good afternoon. I am honored to appear before the Subcommittee on Economic Growth and Credit Formation today to discuss the Economic Development Administration and its efforts to assist in local economic development through the use of innovative financing tools such as guaranteed loan programs.

I commend you, Mr. Chairman, for the timeliness of this hearing. The challenges facing economically distressed areas around the United States today are vastly different than they were just a few short years ago. With new challenges comes the need for new approaches at the local level, the State level, and the Federal level; new approaches to government's role in supporting private sector economic development.

As we rethink the role of the economic development programs, and the Federal Government as a whole in local economic development, we are exploring the tools which will be needed to assist communities that are currently outside the mainstream of economic growth to build economies that will be able to provide an adequate and improving standard of living for their populations in the future.

In many communities, in all regions of this country, the basic economic development challenge being faced today is the challenge of the competitiveness of the existing and the emerging local industrial base. As the American economy faces more and more difficult global competition, so too do companies and industries across the country, as well as the communities which depend upon them.

Major changes in governmental policies, ranging from environmental regulation to defense spending, are reshaping the competitive universe in which so many important industries exist, and are magnifying the competitive challenges faced by these industries and by their communities. The market forces that are reshaping the industrial world are simultaneously creating opportunities for new and emerging companies and industries.

At the community level, future prosperity is increasingly a function of the effectiveness of government and industry working together to meet these competitive challenges and to take advantage of these opportunities. At the Federal level as well, economic development policy must be designed to meet these competitive challenges and opportunities.

The Clinton administration, through the Department of Commerce under the leadership of Secretary Brown, is helping American industry to meet its competitive challenges and to seize its market opportunities. This is happening through a dramatic increase, in Federal investment in civilian technology and in the Federal support for the export activities for globally competitive U.S. firms. The Department of Commerce through EDA is similarly committed to assisting communities in meeting the economic development challenges of today and tomorrow.

The House of Representatives in passing H.R. 2442, with of course, much important input and support from this subcommittee and yourself, Mr. Chairman, has acted to ensure that distressed communities can take advantage of a reauthorized EDA to develop projects that will lead to long-term private sector job creation.

At EDA, we are redirecting our programs and the tools which we use with the objective of ensuring that economically distressed areas and regions of the United States benefit from the new Federal commitment to promote America's globally competitive, technology-based export-oriented industries.

Since the creation of EDA under the Public Works and Economic Development Act of 1965, EDA has targeted its resources to com-

munities suffering high levels of economic distress. This must be no less the case today; as the Federal Government seeks new ways to assist U.S. industry to remain globally competitive, EDA must use those tools to assist those communities which are outside the mainstream of economic growth or which are in danger of falling outside of that mainstream to remain creative and grow a competitive economic base for the future.

What is needed in economically distressed communities in order for this to happen are both: One, financial inducements for the growing globally competitive industrial sectors to invest in our distressed communities and; two, institutional linkages between the community leadership and the business leadership whose companies can form the economic base of the future. I know that any new economic development tools for EDA should provide assistance in meeting these two needs.

The history of EDA is instructive in this regard. For almost 20 years, EDA through its Title IX Program has provided grant funding to not-for-profit and public intermediaries in economically distressed communities across the country to establish approximately 420 revolving loan funds. A total investment of approximately $350 million has leveraged an estimated private investment in excess of $1 billion and has created at least, we estimate, 100,000 or more jobs.

These revolving loan funds have operated at the local level to provide flexible subsidized financing to businesses which represent economic development priorities for the local community leadership. Our strongest revolving loan funds have built linkages between community leadership and business leadership in these communities which have stabilized the economic base and which have helped to prepare these communities to meet the economic challenges of the future.

In general, however, the revolving loan funds need to be more closely tied to national priorities, as these national priorities are changing, and have suffered over time from insufficient funding, lack of flexibility in terms of available financial instruments, and insufficient liquidity of their existing debt instruments.

In this administration, we propose to address these issues by linking the RLF structure more closely to national economic priorities by increasing funding, by providing more flexibility, and by enhancing the liquidity of the debt instruments held by the revolving loan upon funds.

Several specific new tools are proposed by EDA in draft subcommittee legislation which we have had the opportunity to review. This draft subcommittee legislation is specifically intended to foster economic growth and to create new employment opportunities in communities facing economic distress, and each proposed demonstration program is targeted to communities facing long-term economic deterioration or otherwise experiencing particular economic adjustment problems. The proposed tools which would be available to EDA include loan guarantees and equity financing instruments.

In order to increase financing and facilitate liquidity of revolving loan fund debt instruments, we will need loan guarantee authority. Loan guarantees for economic development activities is a high pri-

ority of the Clinton administration. The administration has strongly supported legislation emanating from this subcommittee in connection with EDA's reauthorization which you made reference to, Mr. Chairman, earlier, which would provide EDA with the authority to guarantee economic development loans. In addition, the President's pending budget request to Congress for fiscal year 1995 requests $50 million in loan guarantee authority for EDA.

Economic development loan guarantees would serve a number of important administration objectives. By leveraging private investment many times the amount of Federal funds required by law to be held in reserve for an EDA loan guarantee, this vehicle would ensure a better leverage for the Federal dollars appropriated, expand business activity investments by our intermediaries, and would enhance private lender participation in community/economic development.

As an economic development tool, the Loan Guarantee Program would be a catalyst to encourage and assist private sector investment that will create jobs. EDA would provide assistance to finance existing emerging or expanding private firms which have been identified as local priorities under the local economic development strategy developed in the local community.

EDA loan guarantees would enhance the ability of these firms to obtain the investment capital necessary to remain or to become more competitive in the global economy, whether that was structured to support individual private sector loans or to recapitalize EDA's existing network of revolving loan funds.

An EDA Loan Guarantee Program would work in conjunction with local community development initiatives. Individual loan guarantee decisions would be made in the context of promoting job creation, job retention, economic diversification, and the building of a new economic base for communities outside the mainstream of economic growth rather than solely from the perspective of making individual credit judgments.

This type of program would be used to support business investment in high growth industries and other activities central to the future economic base of distressed rural and urban communities. EDA would ensure that its activities would not conflict with those of other Federal programs.

Because EDA has a flexible array of existing economic development tools at its disposal an EDA loan guarantee demonstration program would make debt available to businesses in conjunction with other below-market financing such as is available under EDA-funded revolving loan funds. Specific funding packages could thus be tailored by local intermediaries to meet the needs of particular borrowers, while providing the leverage needed to get the greater economic development impact from the limited EDA grant funds.

EDA would undertake, under a guaranteed loan demonstration program, to show how effectively this would be done. By tailoring below-market financing packages to meet the specific needs of borrowers, EDA's intermediaries would also maximize the likelihood of a borrower's ultimate success in meeting its financial obligations. Once a successful loan guarantee record was established under the proposed demonstration program, EDA would hope to achieve a

subsidy rate for loan guarantees similar to that established for other existing Federal loan guarantee programs.

With legislative authorities such as those contained in H.R. 2442 and in the draft subcommittee legislation, which I referred to earlier, EDA could also use loan guarantees to recapitalize our existing revolving loan funds. This kind of authority could have particular promise as an economic development tool. In doing so under a demonstration program, EDA could select for recapitalization those RLFs with the strongest track records in meeting the needs of America's distressed rural and urban areas.

A new program structured in either of these ways would be fundamentally different from troublesome EDA loan guarantees of an earlier era. Unlike the steel industry loan guarantees of the 1970's which were a well-intentioned effort to support a failing industry, loan guarantees today would be utilized to support the competitive growing industries of the future. EDA loan guarantees would be used to bring high growth business activity into distressed communities rather than being used to try to salvage declining industries in distressed communities.

EDA's revolving loan fund would provide the necessary capital to spur business development and expansion with an explicit location and job creation focus. Whereas venture capitalists are focused on providing capital in cases where there is the greatest likelihood of a high rate of return on investment, EDA and its intermediaries are focused on providing capital where there is the greatest opportunity that the businesses will be anchors in distressed communities and will provide employment opportunities and an economic base for the future. EDA's structure is designed to make investment decisions that are both financially sound and are likely to lead to permanent job creation and help revitalize a struggling community.

As previously stated, any effective set of new programs at EDA which seeks to promote the creation, retention, and expansion of a globally competitive future economic base for distressed communities in the United States must address both the need for subsidized financing to induce private sector investments and the need to create the institutional links between community leadership and business leadership. The equity finance program proposed for EDA in the draft subcommittee legislation we have reviewed would achieve these objectives.

The availability of funds to community based intermediaries for equity investments would ensure that funding will be targeted to companies investing in distressed areas. Only by giving the community a real stake in the funding for local business development, such as through the Equity Finance Program, and by doing so through legitimate and experienced intermediaries capable of making investment judgments can the ultimate goal of bringing high growth business activity to areas outside the mainstream of economic growth be realized.

Care would be taken, in consultation with SBA, to ensure that this demonstration program as implemented does not conflict with or overlap SBA's existing programs. To accomplish this approach for coordination between Commerce and the SBA taken in H.R. 820/S. 4, the National Competitiveness Act should be explored.

There may be other models that should also be considered. We would like an opportunity to work with you and the SBA to develop the best solution.

I understand that the subcommittee is also considering two other bills—H.R. 3853 and H.R. 2191—which would authorize new programs in the Departments of Treasury and Housing and Urban Development respectively to support economic development financing. EDA defers to Treasury and HUD to provide comments on these two bills, Mr. Chairman.

Let me simply conclude, Mr. Chairman, by saying how much I appreciate your invitation to testify today and how happy I will be to answer any questions.

Thank you very much.

[The prepared statement of Mr. Ginsberg can be found in the appendix.]

Chairman KANJORSKI. Thank you very much. This last Wednesday for me has been a rather traumatic one and it has highlighted the very problem that we are taking testimony on today, and I want to be sure that the administration at least perceives what I see as a very major problem.

And that is that there seems to be an insensitivity on the part of this administration and past administrations to recognize that economic development flows from economic opportunity. And that economic opportunity is not always reflected in direct economic grants or loans but, in fact, it is a composite of whatever government does.

And I know the three members that are on this subcommittee here today, we represent basically those districts of the United States that did not benefit from defense buildups of the 1960's, 1970's, and 1980's. Further, we represent districts that contained a substantial industrialization of America that became relatively obsolete with a significant change of steel around the world and other products that have moved off our shores.

And we represent districts that were not fortunate enough, except perhaps in Mr. Fingerhut's case, to have universities and national laboratories right there in the district. So very often we have had the occasion to see over the last 10 or 20 years, the U.S. Government endow tremendous funds to national laboratories, to universities, to study groups, and not consider these as economic development funds, not to consider these to be weighted with some sort of equality to disadvantaged districts.

We have seen the defense industry of the United States literally spend trillions of dollars in very targeted areas of the country, districts, who now are suffering from conversion and from downsizing and who are coming back to the Congress and back to the administration with hat in hand now for sympathy, even though they suffered some of the greatest economic growth in the 1970's and 1980's of any area in the country.

They now face 4-year periods of economic difficulties and I am sympathetic, but I am becoming acutely aware of the fact that there doesn't seem to be a quid pro quo here.

And what the Economic Development Administration or the Department of Commerce means to me is that this is our opportunity to get some balance or equality back.

When I think about the National Science Foundation, I think it allocates somewhere between $9 and $12 billion a year, mostly to research universities. When I think about the Department of Defense, they allocate billions of dollars for economic development purposes in the development of new dual-use technologies, and some of the newer programs that we have created over the last several years.

And then I discovered just recently that 80 percent of that funding, billions of dollars are going to corporations of—in the Fortune 500, not to small business, not to medium-sized business, not to the districts in New York and Pennsylvania and Ohio that need the support.

But, in fact, I heard you talk about the $350 million of your administration, that does not represent one airplane. That does not represent—I know a university in this country, a research university that gets more than $350 million of Federal funds. Now, that is a tremendous economic stimulus tool.

So what we want to do is structure something with you in the Economic Development Administration to equalize this. I hear you talk about competitiveness, and community competitiveness and I think that is an interesting concept. What we are looking for is competitiveness and that districts in New York, Pennsylvania, and Ohio and other districts in this country have an opportunity to compete with those districts that have been flooded with Federal dollars that create economic opportunity because of the spinoff technologies and other inventions that are carried off within their territory.

Now, in your testimony you talk about the need for loans and guaranteed loans, and so forth. I certainly sympathize with that. But do you carry that to the extent that you feel that there is also a great need for direct venture capital and that in some instances what you call a guaranteed loan really in a way will result in venture capital because it will be of such a broad nature and so untuned to be directed toward just real estate and machinery but may be used for working capital.

Mr. GINSBERG. I do think, Mr. Chairman, that subsidized financing for working capital investment purposes, call it venture capital or call it flexible financing on terms which provide the ultimate kind of flexibility to the business being financed is a critical need.

And it is sufficiently critical, I think, that it could be the—it can be, if structured properly and if there are adequate resources available, it can be the determinant of business decisionmaking about whether a business is going to go ahead with a certain project, and if so, are they going to go ahead—at what location are they going to go ahead. And if government in one location is in a position to provide resources where another community might not, I think it could make a big difference.

So I think the answer is yes, and I think our analytical framework for thinking about these issues is, how do we impact business decisionmaking? How are we going to try to create investment decisions and locational decisions by growth businesses which can form the economic base of the future in the kinds of communities—I term them in my testimony communities outside the mainstream of economic growth—in the kind of communities where those com-

panies haven't been locating say over the last generation. And I certainly think that equity kind of financing along the lines of what is suggested in the Demonstration Program in the draft subcommittee legislation can be an important to that, yes.

Chairman KANJORSKI. I guess I want to make sure that we get something straight. We have all worried since Eisenhower left office about the military/industrial complex, and with the advent of the wall coming down, we are starting to bring that back. I am worried that there is also a military/academic complex and an industrial/academic complex, and I am worried not because I do not favor that.

What we cannot afford—somebody has an idea out there to start parceling out research and development money around the country, and ultimately I may support that because nothing else seems to work, but that is probably not the most effective way to do it. Let the MITs and the Stanfords of the world do their work, but it seems to me the districts in New York and Pennsylvania and Ohio should be entitled to see the spinoff of their work on an equal or better basis than the Bostons or the Silicon Valleys that now feed off that work.

And something is out there that says there is inequity in the system if we as representatives of needful districts are going to continue to support Federal money and that money is in direct competition and direct destruction of jobs in our respective districts. So what we are looking at, the Economic Development Administration, is to be the advocate in the administration and to carry the weight—I guess sound the charge over in the Defense Department and other areas that it is now intolerable that they continue to fund research with what we consider is economic development money and that it now goes to the same places to develop jobs that already have low unemployment areas and high cost and that none of this money or little of this money flows to disadvantaged areas except what little we are allowed to allocate or have been up until this point.

So, I think somebody in their testimony mentions that they describe something relating to competitive communities. I think it is a good concept but we are asking, let us make the districts in Pennsylvania and New York and Ohio competitive communities and not just Boston and Silicon Valley and Houston, Texas. This is something that has got to stop there.

Now, Ms. Velazquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman, and I will add to what you just said. I would love that you convey this message to the administration because I am outraged to see how this administration intends to end welfare as we know it. You know, I just held several town hall meetings in my district. People are not asking to increase welfare benefits; they are asking for jobs.

I don't have an MIT in my district. We have to face redlining by the lending community in my district. We have to face the fact that banks are leaving my district. I would like to know how effective you think the EDA can be in turning around chronically distressed urban communities, and which particular initiatives under the EDA be helpful in chronically distressed urban communities?

Mr. GINSBERG. Well, I do think that EDA can be effective in those kinds of communities. To pick up on the last two comments, if I may, I think we are really talking about ultimately two basic issues here, competitiveness. If there is not a competitive industrial base in a distressed community or in any community, there cannot be job creation. Jobs are created in the end, long-term quality jobs are created in the end by globally competitive businesses, businesses that can compete on a global basis.

And the problem is, and I think both yourself and the chairman have put your finger on it in your comments, those industries have tended for a variety of reasons to concentrate in certain areas of the country outside urban areas—outside rural areas. They have tended to concentrate in suburban rings around major metropolitan areas. I think we have built in this country a superb system in terms of scientific development and technology development and are getting better at technology commercialization which go to the competitiveness issues, and trying now to focus that in the civilian sector rather than primarily in the military sector.

The piece I think that needs more focus and EDA's piece and what I am here today for this hearing is the communities's side of it. We need to make sure that there is funding at the community level to do the two things that I mentioned in my testimony, I think.

One is to provide the kind of subsidized financing through grants to intermediaries and through revolving loan funds to intermediaries through loan guarantees and equity finance to provide the financing that can subsidize transactions involving growth businesses in distressed areas to turn around that dynamic and provide a sufficient financial inducement for companies to locate in those areas or expand or an existing company to develop a new technology-based competitive product that can add jobs.

And the second piece is we have to have institutional structures that create the linkage between the leadership of those kinds of businesses and the community leadership in these communities. I can't speak, of course, Congresswoman, to your district, but my own experience is that very often the community leadership and the business leadership, particularly in economically distressed areas, really don't create the kind of dialog that is needed to make the businesses feel comfortable in those areas for a variety of reasons.

Because the economy has been declining in these areas for many years, the right kind of dialog doesn't exist. The kind of institution building that EDA has done—and the reason I mentioned the 20-year track record of building revolving loan fund, we have built 350 community-based institutions and given them money to make loans at the local level, to make loans with businesses that are community priorities to support the future economic base.

The chairman is right; that is an insufficient amount of money compared to the military budget, for example, and I said in my testimony that it hasn't been enough money. We could recapitalize some of those funds using loan guarantees in the manner that I mentioned.

So I think that we have effective tools. EDA has not been a growth agency in recent years. I think that we can provide the

community link for competitive businesses. And we can do more of it in more parts of the country more effectively if we have the additional tools we are talking about today and additional resources.

Ms. VELAZQUEZ. Maybe 4 weeks ago, we met with the Secretary of Labor and he spoke about the 3 million jobs that have been created in the last 2 years. I invited him to come to my community to show me where those jobs are.

How many jobs do you think that EDA initiatives can create?

Mr. GINSBERG. Well, specifically, in the context of the revolving loan funds, which is what I addressed today, in the context of loan guarantees, let me give you an example. Obviously, the number of jobs that will be created is a function of the kind of resources that we can put into these.

An historical analysis shows that every dollar that EDA has given to a local community institution to establish a revolving loan fund, we have been able to generate an additional 50 cents from private sources into that fund. And for every dollar that that fund has put out into the community in the form of loans, that dollar has generated approximately $4 of private sector financing for the business involved.

What that translated to is for every dollar that EDA has granted to a community revolving loan fund, we have leveraged a total of approximately $6—this is historical numbers—approximately $6 in total investment in businesses that are identified by these community institutions as priorities at the local level. That kind of leverage, obviously, translates into significant jobs as well.

And in the case of the revolving loan funds, we estimate over 100,000 jobs over the history of the program out of a total investment in excess of $1 billion. So the number of jobs we can create going forward is the function of the kind of resources that we will have, but there is a very good leverage for every dollar that goes into these funds in terms of private money raised and in terms of jobs created.

Chairman KANJORSKI. Mr. Fingerhut.

Mr. FINGERHUT. Thank you, Mr. Chairman.

Mr. Ginsberg, it is a pleasure to have you before the subcommittee. And I do commend the Department of Commerce for their efforts in economic development, from Secretary Brown on down. I have found a consistently responsive organization that really is concerned about these issues.

But I think what you may be picking up here on this subcommittee is a sense of urgency that we are asking you to convey back on our behalf. And that is that this is a subcommittee, obviously, that is concerned about the subject of economic development. We believe in these programs. We are going to support the proposals that the administration has made. We hope that all of the numbers that you project in terms of the spinoff effects are true. You have believers here.

But—and I think that we also are proud of the fact that over the last year, 1½ years, we have moved to put our country's economic house in order. You are looking at people who helped make the tough decisions, together with the administration. We think that we have probably arrested some of the more rapid decline in our Nation's economy and our industrial base but we have not turned

the corner. And that is the message that I think we are trying to convey.

Our Nation's industrial base is still at risk. You heard Mr. Traficant talk about the 50,000 jobs that were lost in his district. Our number between steel and chemicals and automobiles and everything else is probably many times that number. And, basically, this country looked the other way while we deindustrialized. And we can no longer afford to do that.

The little boost that we saw over the last year, I think, came from the fact that as we brought our house in order, the interest rates came down, the public gained some confidence, they went out and spent some money and bought cars and houses and then they had to put things inside the houses, and so the great consumer opinion that drives the American economy drove it for the last year. And, ultimately, our industrial base is in the business of making things that our great consumers want to purchase.

What I think we are noting is not only a sense of urgency but, as compared to the size of the problem, what we have been able to muster in this subcommittee and what the Department has been able to muster in these proposals seems relatively insignificant. And if there is anything in your new position and in your counsels and in your meetings that you can convey, and we will too in our conversations with the administration, is that we feel that we need some dramatic measures that go well beyond anything that we have already contemplated to focus on the areas that desperately need the help to grab them around the throat and keep, frankly, stimulating our consumer economy to make sure that the engine that drives these purchases doesn't dry up.

I am not particularly sanguine about what is facing us in the next 6 months or the year on the economic indicators. That is our job. That is what we were asked to do and that is, I think, the message that we are trying to get across to you.

In terms of what we have on the table, you will find complete agreement, but in terms of a strong desire to grab this problem by the throat and to shake harder and more dramatic than anybody has put on the table in the last 1½ years, I think that is what we are all saying.

I appreciate your testimony and, Mr. Chairman, I appreciate you giving us the chance to make these points.

Mr. GINSBERG. I appreciate those remarks, Congressman. You can be assured that I regard EDA as the agency that is specifically charged with economic development and in a broad sense and I think, as my testimony indicates, we are changing the definition of what that means. We are focusing more on the existing industrial base, as EDA was created to do.

We are targeting the communities that otherwise don't benefit from the economic growth and don't benefit from the kind of investment programs, technology investment programs, export promotion programs, that are properly getting as much attention and resources as they are getting today. We need to make those programs and those initiatives work in the communities that are outside the mainstream of growth. And so I assure you that is how I view the mission of EDA. And I am going to take your comments, very supportive, in that regard.

Thank you.

Chairman KANJORSKI. Mr. Secretary, the last couple of days I have been talking with people at the SBA, the Administrator—I had a very fine meeting with him—and we discussed your proposals and his proposals and he felt that there should be a linkage, a discussion between the two. I think you are right on point and I think you complement each other very well. There is common ground for a mutual understanding.

But going one step further, I have also been in contact with the Defense Department a lot, well, in infinite terms in the last couple of weeks. I am not sure that they get it. I am not sure about all the elements that are responsible for job creation in the country and their ramifications. Would it be beneficial, do you think, to convene a roundtable discussion type of hearing where the Defense Department was there and not just some lowly person, but of the top level, maybe a Secretary or the Deputy Secretary to hear our words, yourself and the Secretary, people from the Science Foundation?

It seems to me that there is an awful lot of singular focused folks out there who are all saying that they have the same interest but they really are not interrelating and they are not cross-pollinating, so to speak. Sometimes the Defense Department is making decisions that I find incredible in their ramifications and effects on economic growth and they do it with the attitude of, well, why not? Without any response to the ramifications.

If we are going to create the type of jobs and we are going to have conversion and we are going to have the technology creation and jobs from that in a real sound economy, and not just be politically superficial, unless we get all of these people talking, not at each other but with each other, it is not going to happen.

Up here on the Hill, we each represent 560,000 people and we go home every week and we talk to these people. What my two colleagues have said, if anything goes out of this hearing that you could take back, there is tremendous frustration in this country from the lack of this administration to pay attention to creating jobs.

They wanted Mr. Clinton to get the deficit under control. They wanted him to consider health care, they want welfare reform. They want substantive reform in this country, but the end result, none of it will be accomplished without job creation, and I have yet to see the administration come forward with a comprehensive policy or support a policy from the Hill that is creating the type of jobs we need in the communities that we are talking about.

And I worry about it and I have heard you talk about technologies on several occasions. I guess I would like to hear your view. Is there a linkage between technology commercialization and economic development in your opinion? If there is, what is your thought on that?

Mr. GINSBERG. Well, I think there is because I think it comes back to this notion, as your question before indicated and my answer tried to indicate, about linking the competitiveness issues which involve business support, business financing support, and you mentioned SBA, and of course, that is a major institution in

that regard, business technology support, which is technology commercialization programs.

Whether they be in the Defense Department or the Commerce Department, they are located all over the Federal Government actually, linking those back to our communities in ways that are effective and create jobs and support businesses at the community level and start to get some of the growth industries, small business, technology-based business, into areas that have been otherwise left out of the mainstream of economic growth. I think that is the challenge.

There is a lot—as a general observation, there is a lot of Federal agencies, a lot of Federal programs, there are a lot of Federal resources going into support business, more so than in previous years. This is an administration that is committed to an aggressive and affirmative partnership with business institutions, particularly high growth technology-based business institutions.

The trick, as I said, it is a challenge to make that work at the community level for the communities that are outside the main stream of growth. At the same time, there are a lot of resources that go to support community development initiatives whether they be in urban areas through the Department of Housing and Urban Development, whether they be in rural areas primarily through the Department of Agriculture, and the challenge is to link those back to business.

I think to pick up on your suggestion, Mr. Chairman, about utilizing the subcommittee to bring together a group of the Federal players in this regard, linking those to the communities in this country and linking the community development programs back to the business community. And that is the challenge as we go forward, I think.

Chairman KANJORSKI. I guess the word I want you to take is that academic/industrial complex I am talking about, if MIT wants Federal dollars for research, MIT better figure out how to get that research into New York, Pennsylvania, or Ohio or we are going to have to decide that we cannot afford to help MIT with that research, we are going to use that money to create jobs in New York, Pennsylvania, and Ohio, and let those professors go back to "professoring."

And I think the issue is to have a set of programs that support the businesses that are commercializing activity and support them to do that in areas outside the mainstream and to link them to community leadership. If we can do that, I think that a broader array of communities in this country can begin to see the unquestionable benefits that come from the R&D.

I think what I am trying to do is get across the point, though, that too many of these professors want to be entrepreneurs and owners of the research that we are financing and they want to live around Cambridge. I do not care whether they own the technology or build the Polaroid plants. I am happy for them, but come on down to Pennsylvania and New York and Ohio. Let us not stay up in Cambridge.

We would all like to sail on the Charles River, but some of us have to live along the Susquehanna River and we want to make sure that people who live along the Susquehanna River get the re-

search and development dollars to create jobs because that is what economic development is all about.

I think that I have gone through this budget now. The tens of billions of dollars that are going into research and development that are directly going into creating jobs in certain concentrated areas and not in others, I think, is a great jeopardy, and anything we can do or you can do to carry that message out there, because this is one Member, if I do not see a decided change in that direction, it will radicalize me.

Mr. FINGERHUT. Mr. Chairman, I would rather sail the Susquehanna River than the Charles River.

Chairman KANJORSKI. I knew you would, Eric.

Anyone else have any questions for the Secretary? Mr. Secretary, we did not mean to be harsh. This is one Wednesday that has frustrated me more than in 9½ years in congressional life, and I will take the opportunity, probably in a private session, to tell you why.

But I think we have some very serious problems within the administration, within the decisionmaking areas that really worry me at this point. And I hold out for you as a voice there in the administration to send the message that you received today and I would appreciate it if you would do it.

Mr. GINSBERG. I will do it, Mr. Chairman, and as I said, I approach these issues as a Federal official charged with running an agency whose charge it is to create economic activity and jobs in distressed economic areas and that has been EDA's charge since 1965. We are looking at ways to do that now in conjunction with this new partnership with business. But the bottom line is making it benefit the very kind of communities that the Members who are here today represent. And you can be assured that I will take the message back, and I appreciate the opportunity to be here today.

Thank you.

Chairman KANJORSKI. We commend your efforts, Mr. Secretary. Thank you.

We will have our final panel of witnesses, and we will start with Mr. Nicholas Karvonides, the associate director of the Economic Conversion project of Portland, Maine. We look forward to his testimony. We have Dr. Michael Crow, vice provost of Columbia University. We have Ms. Eva Klein, president of Eva Klein & Associates, Higher Education and Economic Development Consultants. And Mr. Donald L. French, the executive director, Mahoning Valley Economic Development Corp., Youngstown, Ohio, and the designated representative of Mr. Traficant.

And we welcome you on board, sir.

We will start with you, Mr. Karvonides, with your opening statement, if you will, and if it is possible to synthesize your statement so that we can get to the questions, we will appreciate it

STATEMENT OF NICHOLAS S.J. KARVONIDES, ASSOCIATE DIRECTOR, ECONOMIC CONVERSION PROJECT

Mr. KARVONIDES. Yes, sir. First, I would like to thank you, Mr. Chairman, and members of the subcommittee, for the opportunity to address you this afternoon.

The Maine Economic Conversion project where I work as associate director is a private, nonprofit, volunteer organization that

works with economic, as well as defense conversion activities, in the State of Maine.

My background, I have worked in banking, chemical engineering, as well as with the aerospace and defense industry and had taken a year off in the private sector to work for this nonprofit group.

The comments I will share with you today are based on both my involvement in the economic private sector as well as working with the small grassroots community-based volunteer organization in the State of Maine.

What I would like to do is focus my comments on the initiatives that your committee is looking at in regards to exploring new equity capital tools to promote economic development and job growth.

By coincidence, about 3 weeks ago, our organization, in working with defense diversion in the State of Maine, we get involved with working with base closures, downsizing, as well as industry downsizing of defense manufacturing companies, and whether we look at community planning activities, market integration activities, or base reuse efforts, we have just begun to look at some of the issues regarding capital awards or some of the capital requirements of financing conversion activities in our own State, as well as what is happening outside the State of Maine.

In particular, we convened a meeting of private venture capitalists both located in and out of our State, State-based public finance authorities that work closely with bonding and with lending activities, as well as with various industry groups, folks who work in education and economics and such, and we want to bring together a pretty diverse group of individuals to look at some of the issues in our State concerning venture capital.

What our organization is eager to do is, over the next 3 to 6 months, is the possibility of putting together a white paper that we will present to our State government. Our State's Committee on Economic Development that oversees conversion activities in Maine cosponsored this round table that we had about 3 weeks ago, and what the group was interested in doing was assessing the equity capital requirements for both new manufacturing or service—or technology, service-related startup companies, as well as looking at similar equity requirements of existing microenterprises and small businesses.

Our general impression at the moment is that a number of these enterprises, whether they be particularly in the areas of new startup ventures, don't have the opportunity to get off the launch pad, if you will, to hang a shingle and start a small company.

In addition to that, we also look at small growing—excuse me—ongoing existing companies, particularly small microenterprises, and again, that don't have the financial resources to either maintain longevity or also to try and grow their industry over time, and some of the requirements, particularly for new starts, is in the areas of developing either business plans or market feasibility studies, and rarely are there Federal or State programs available to try and address those needs.

You mentioned defense conversion and the Department of Defense, and in particular if you look at the TRP Program or even ATP that is offered through NIST, there is a fair amount of funding available both for small, as well as for large companies, rel-

atively speaking, but virtually no money is devoted to the issue of commercializing a technology.

The Department of Defense, DOE, and NASA are literally a treasure trove of resources not just for our State, but for States throughout the country to do a lot things for a lot of folks, individual workers, and enterprises, but I think the mentality at DOD and the Department of Energy to an extent, and NASA, although the intentions, I think, are there to try and commercialize these technologies, I don't think the mindset of, you know, what does it take to commercialize a technology in the areas of doing the market research and business planning, because if you look at the TRP or ATP Programs, there are just not provisions for that. They are more toward R&D technology activities.

The reason that we are targeting defense conversion in regards to venture capital requirements is because Maine's defense industry represents our third largest economy. It is also at present our fastest growing. We have a number of military bases both closed, on the closure list, or vulnerable to closures in the future, and we have a number of—as well as prime contractors and subcontractors who manufacture anything from destroyers, machine guns, to my former employer who made parts for strategic missile applications, and we have a number of instances where our organization will get calls from the folks at the Portsmouth shipyard, for example. That facility we also look at as a depository of a number of critical military technologies that do have transferable or commercial applications, and we also get phone calls from folks who have either been laid off or take early retirement from downsizing defense industries, and what is common is a lot of these folks will come to us, and again, what they will bring with them are military-related capabilities that they are interested in trying to commercialize, and if you look at a destroyer, for example, which is a—you know, a very advanced platform, just in the refrigeration systems, like the CSE technologies that a warship has, there are applications in new environmental products, or if you look at the composite technologies that we built for nuclear warheads and for rocket motors, there are biomedical or solid fuel cell applications, but, again, these folks are interested in trying to start a business, but these types of activities are not the sorts of business requirements that a commercial bank would provide a loan for.

There are also relatively small ventures that venture capitalists don't have an interest in financing. Venture capitalists also have a stronger interest typically in ongoing concerns that have a little history toward them.

Given that need that we have seen in our own State, what our group is interested in doing in the State of Maine is proposing to our State legislature the possibility of setting up a public-private venture capital fund, and it is pretty much in the early stages of development, but the notion is, is that—is to have the State legislature pass legislation to set up this fund and to provide State funds, either through general appropriations or possibly through a bond issue.

We would like to—if that was possible, we would like to use those funds and to leverage them into EDA's programs of re-

sources, and I am very encouraged about your committee's interest in venture capital as well as the Secretary's in this area.

We have—given our high level of dependency on defense, the important role that—well, the EDA plays in our State historically and today with working with Defense Conversion Programs, we do see it as an appropriate mix.

From a financial standpoint, if we can leverage $1 of State money to $3 of EDA money, it also makes an awful lot of sense for us.

There are other program potential opportunities offered through SBA, the SBIC Program, as well as the potential of the critical technologies investment companies. That has also been discussed as well.

We would like to shore up both State and Federal public support, and after doing so, we would like to take those resources and try and entice private venture capitalists to come into our State, you know, to join into this public-private venture.

It is critical that we have the public support to offer some of the incentives to the private sector to, in effect, bring them to the table.

In addition to that, there are a couple of private foundations, the Ford Foundation, John T. MacArthur, that are currently right now looking at providing some of their financial resources toward defense conversion and equity capital investments.

There are endless other potential private sources of funds to try and leverage, whether it would be to try and attract pension funds or mutual funds that particularly might focus in socially responsible investments.

What some of the unique aspects that we are looking at, aside from the idea of bringing public and private dollars to the table, is the management opportunities of this sort of fund. As I mentioned earlier, the roundtable that we put together had a variety of stakeholders in our—in the State of Maine at the table, and one thing they were envisioning for this public private venture fund was an investment advisory board that would include State officials who work in economic development, science, technology, education, finance, as well as private venture capitalists, community development corporations, as well as economic development corporations, but also having private industry and representatives of organized labor, which are typically not—don't participate in those sorts of financial institutional investments.

Looking at some of the mechanics of the fund itself, particularly to try and draw in venture capitalists, there is some consideration in setting it up or modeling it after a mutual fund in the sense that a private venture capitalist might not have an interest in funding a $25,000 investment, nor even a $150,000 investment, per transaction costs, don't justify, I guess, the effort.

If this public-private fund could sell shares, for example, to venture capitalists, again, it kind of raises that level of playing field for the private sector to justify their participation.

Other features we looked at is—which I will talk about a little bit later, is having the diversity of investments, offering investors an opportunity to invest in certain sectors within the fund.

If the fund were, for example, to later on grow into biotechnology or value-added wood products, agriculture, in addition to defense

conversion, investors would have some—or these customers so to speak would have a choice or variety of where they might want to funnel their investments toward particular industrial sectors.

The two other points that we looked at in setting up this fund is that providing this financing would be tied to a technical assistance package. And this is just giving someone an opportunity to access equity, is to also bring with that the technical assistance and how to write a business plan and a lot of these sorts of services are already offered through our university small business development centers, as well as community development corporations.

Last, given that it would be a State initiative, the State would also have a further interest and try to entice private sector investors by offering certain incentives. That could be either tax credits, limited amounts of guarantees, and such.

The idea behind this, though, is that this would not be a long-term avenue for microenterprises or new startups to rely on throughout the life of the company, but more a chance to jump start a small enterprise or a certain industry in our State.

We have had a lot of argument in the State of Maine regarding, you know, how do you justify putting at risk public dollars, and we have begun by, first of all, saying that our State has a vested interest in utilizing these sorts of resources for job creation, to try and jump start an economic recovery of very depressed communities and industries in our State, as well as the support of strategic and sustainable economic interests that Maine has.

We have had a number of initiatives from organized labor, from State officials, and private industry in trying to develop a long-term economic growth plan for the State, but more specifically an industrial policy, and industrial policy is an issue of picking winners and losers, and that is an issue as well.

Some folks say why just defense conversion or certain key industries? And there is precedence. If you look at the Federal Government, for example, when Federal taxpayers fund programs like for flat panel displays or certain critical technologies that have been identified through NIST or ATP or ARPA, the country is making strategic, long-term decisions as to where they want to go, what type of job opportunities they want to provide for this Nation and what is going to make this country most competitive into the next century.

So I think there is some precedence in regards to trying to pick winners and losers, in regards to what is the precedence both in and outside of Maine to commit public investment, there are endless amounts of Federal and State programs, and job training. There are technical assistance programs, loan programs, and such.

One of the differences, with the exception of loan programs, is when our State or the Federal Government gives assistance to industry, rarely is there a—I mean, there is a payback in regards to sustaining industries or growing them, but when you have an equity investment, the State literally has a vested interest in these firms. If they are successful, you also have the payback opportunity of bringing some of these funds back into this investment pool.

In addition to that, having the diversity of interest of both public and private, I think, raises a level of accountability which I think is very important to taxpayers as well.

And then finally, you know, as I mentioned before, both our State, as well as this Nation, does have a strategic or critical economic interest in industrial policies that I think we want to be behind the driver's wheel so to speak.

And there is one area in particular in equity looking at new industries and trying to jump start small businesses or advance them along, you know, that is just going to be very important, and one of the last things I will say in closing is that our State just passed—our State legislature is putting up on our ballot a bond issue and that bond issue is for revolving loan funds, and what is unique about it is that it has identified about a half a dozen key areas.

One is defense conversion, biotechnology, agriculture, precision metals, and electronics. That is another example that our State is looking at is trying to make wise choices when there is a limited amount of State funds and there is certainly limited Federal funds on how to appropriate those, and if there is an area where—particularly in areas of capital and equity that has not been addressed, you know, we think this is a very appropriate place possibly for our State to look at, and we are very encouraged by your subcommittee's interest in EDA funds as well as the Secretary's comments.

Just by happenstance, when I was flying down here last Friday from Portland, Maine, I picked up a flight in Philadelphia and sat next to Secretary Brown. It was unintentional. And I figured I had a little of his time. I said the State of Maine had submitted an EDA application for venture capital funds, would you have an interest? He kind of looked inquisitively and was a little bit on the spot, and he wouldn't approve the application there, but he did certainly express a general interest in entertaining that sort of notion.

And in closing, I would like to say as well that the only opportunity that Maine has had to try and develop venture capital money to either new starts or very small emerging microenterprises has come from community development corporations, and I bring that up for two reasons.

One is that I read through some of the language on the EDA authorization, and I know your subcommittee has a strong interest in CDCs. Kolse Enterprise is a very successful CDC that we have in the State of Maine. They run small business development centers. They also originate SBA 504 loans.

One thing they have done that has been very unique that no one else has brought to bear at this point is that they have set up a venture capital fund that is geared toward single mothers who try to start their own companies, as well as environmental industries, and venture capital firms.

The problem has been though, that is the only one available to do that, which is close to $1 million, comes from charitable foundations. If they have the opportunity to bring that money on the table to leverage Federal funds, it is a wise investment, I think both for, not only our State, but for all the CDCs, and I think also provide some assurance to EDA on the use of those funds.

[The prepared statement of Mr. Karvonides can be found in the appendix.]

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Chairman KANJORSKI. Thank you very much. Now, I am a little anxious here. I have 4 minutes to vote. I will be right back. We will just hold the hearing.

[Vote recess.]

Chairman KANJORSKI. We are going to try to jump over and we will hold the two. Mr. French has a plane, I understand, he has to get. Mr. French, we will take your statement. If you can synthesize it for us, the entire statement will be put in the record.

STATEMENT OF DONALD L. FRENCH, EXECUTIVE DIRECTOR, MAHONING VALLEY ECONOMIC DEVELOPMENT CORP.

Mr. FRENCH. Thank you, Mr. Chairman, and distinguished members of the subcommittee. It is a pleasure and an honor to be here today.

My name is Donald French and I am the executive director of the Mahoning Valley Economic Development Corp. [MVEDC]. MVEDC has been in business for 15 years in the northeast Ohio area where it has been trying to revitalize the economy in the area that Congressman Traficant mentioned to you earlier today.

MVEDC is a private, nonprofit-based company and its major activity is lending to small businesses. In addition to lending, it owns and develops two industrial parks. It also owns and administers two industrial short-line railroads. It, additionally, operates a technical procurement center that assists the Department of Defense with purchases of products from small companies throughout our area to the various units of the Federal Government.

In the area of lending during 14 years of experience, MVEDC lent over $40 million in direct loans and leveraged over $200 million to nearly 400 companies and created nearly 6,000 jobs. MVEDC have assisted many other companies without direct participation of funds.

To answer one of the earlier questions, MVEDC experience in creating jobs is 150 to 200 jobs per $1 million of investment. One of the subcommittee members asked that question earlier.

The U.S. Department of Commerce, EDA revolving loan fund was MVEDC's first loan fund and continues to be our best. I will cut my comments short, by simply saying I believe that of all the loans programs that MVEDC operates, the EDA revolving loan fund is the best lending program that I have had experience to work with.

I think a modification in the EDA administrative cap that has been placed on the size of these loans funds could very simply be raised and funds could effectively and efficiently be put into the existing system and loaned out to companies to help create jobs around the country in communities that need assistance.

The only problem we have seen with EDA is the long lead time due to administrative problems, and I suppose that is not a surprise to anybody, nor is it a criticism to any of the particular people.

MVEDC also works with the U.S. Small Business Administration, and is a certified development corporation. It also works with banks concerning 7(a) lending, so we know something about loan guarantees.

On a State level, MVEDC operates in a six-county area. It also acts as administrator for nine local units of governments revolving

loan funds, that originate from the HUD Program. MVEDC knows what lending is and has 14 years of experience in the field.

MVEDC also knows about venture capital. It was involved with a startup venture capital, and I can tell you that unless you have got a lot of money to capitalize the venture capital company, be prepared for an unfavorable experience. Consider the high risk of the venture capital field and be prepared for losses much higher than you will experience in traditional lending programs. This is not a criticism of venture capital need. I think it is a necessary component. However, due to the high risk nature, it is best left to the private sector.

With respect to universities such as MIT, the professors could utilize Youngstown State University [YSU] to implement new technology. I happen to sit as the Secretary of the YSU Technology Development Corp. [TDC]. It has already been in contact with M.I.T. It helps companies to modernize tooling and machinery for speed and accuracy of production. It helps implement the "ISO9000" system into companies. The TDC takes new ideas and places them into the American manufacturing system today, to make our companies more productive by decreasing per unit costs and thus competing effectively in the worldwide marketplace.

MVEDC is very involved here, I know many of these "old" companies that are converting to new technologies and that is where MVEDC does its best work on a company-to-company basis, creating 2 jobs or 10 jobs, sometimes retaining an existing job base.

MVEDC hasn't targeted companies because it has never had the luxury of being able to target. If it saw a good business plan and a good company, it went holding the company. This philosophy of holding companies to be productive and make a profit has, by and large, been successful.

As far as your proposals are concerned, I would support Congressman Traficant, because his proposal puts money directly into the business and helping small businesses has the most direct impact.

I have no components against any of the other proposals that you are considering because they all will assist with economic development, and believe me, we can use all the help that we can get. Even the administration proposal which I think is similar to SBA 7(a) guarantees could be helpful if EDA administered it, especially working in the area of industrial development. SBA, even though it works in industrial development, sometimes seems to be most effective in small business.

I have no other specific comments on those programs, and I will cut my remarks short to conserve time. I just really appreciate the opportunity to come and talk to you today.

Chairman KANJORSKI. Thank you very much, Mr. French.

Dr. Crow, we have about 7 minutes before I have to jump out of here. Could I at least begin with you?

STATEMENT OF MICHAEL CROW, VICE PROVOST, COLUMBIA UNIVERSITY

Mr. CROW. I will move very quickly. I appreciate the opportunity to be here. In the last 10 years, apropos of your early comments, I worked at two universities, one in central Iowa and one in Man-

hattan in New York City where we have worked to try to make certain that the institutions that are there can be of benefit to the communities.

It is not easy. It is something that is extremely difficult and it is from those experiences that I have a few comments relative to the four items that you are considering before the subcommittee.

I have also been founding director of four technology-based companies. In one of these communities where one would imagine is not dissimilar from the communities in your own district where such things never grew up before; that is, technology-based enterprises growing up in environs where this has not occurred in the past.

One other comment before I get to my points, in a sense to express to you, I hope that you keep in the back of your mind that, yes, there is a, if you will, an academic/government complex and that this was designed 50 years ago, and that we need to do some serious rethinking about this design.

It is also fair to say that what has happened in places like Cambridge and Stanford and so forth has not happened even in other places where there is even more research dollars being concentrated in universities, and I will give you an example.

In the city of New York itself, within 5 miles of a circle of our university, about $1 billion is spent annually in research, primarily biotechnology-oriented research, and with the exception of the ventures that we are undertaking to build a research park in the inner-city environment adjacent to our medical school, there are no economic development ventures associated with any of those activities occurring in the community.

There is certainly lots of technology that is being licensed all around the country, all around the world coming out of those medical centers, but there is no effort being undertaken to capitalize on those investments, specifically in the communities where that research is occurring, and that is something that we are taking very seriously, just how do we make that happen? How do we capitalize on those investments to the benefit of the city of New York itself?

Chairman KANJORSKI. So that is an even worse situation than I questioned MIT. At least they were getting it around the Boston area, but——

Mr. CROW. It would be fair to characterize it that way, yes. Right. Five points relative to the four proposals you all are looking at.

First, I think that technology and economic development and the importance of technology to economic development is—are minimalized in all of the four proposals; that is, they are not recognized enough.

Peculiar characteristics associated with trying to get technology-based economic development to occur anywhere in Pennsylvania, in New York City, in industrial regions in Ohio, in central Iowa, what have you, the bills just don't recognize the fact that there are peculiar characteristics associated with the development of technology-based companies, and I can give to you and have given to you in my written testimony ideas relative to that.

Second, there is no recognition or limited recognition in the four proposals regarding the possibility that the receiver of the bank's

finances might be intermediaries, not only of economic development corporation types, but other types such as some of the efforts that we are undertaking.

I will give you a specific example, and I am trying to speak as quickly as I can. We have invested, Columbia University, with some loans from the city of New York and loans from the State of New York, about $30 million to date to try to get a business incubator going in an inner-city environment.

That involves tremendous future investments on our part. We have to, in a sense, become a bank ourselves lending money to companies moving into this incubator, preparing space for these companies, preparing—lending money for job training programs to companies that have no access to any capital of any type whatsoever.

Well, we have limits to what we can do in terms of serving as a bank and remaining true to the constituents that are providing us those dollars, because that is not what they are providing us those dollars necessarily for.

Chairman KANJORSKI. Have you created a Small Business Investment Corp.?

Mr. CROW. We have created an entity which makes on our own small business investments where we are trying to attract companies—no, we have not formally. We have on our own.

Chairman KANJORSKI. Why did the university do that? If you spent $30 million, the Small Business Investment Corp., you could have gotten another $120 million to lend out.

Mr. CROW. That investment has been solely just to get the capital going to build the infrastructure that could allow the creation of a place where these things could occur. So we have not even gotten to that point yet.

We are still dealing with creating the place where this can happen in this particular neighborhood. We will get there and that is what it has cost us up to this point.

Third point—the second point is that some of the interest loans need to be made to nongovernmental intermediaries so that we can lever that with money that we have to then lend to those that are attempting to cluster in technology-oriented economic development settings that are being created.

And by the way, I might comment that these can be created anywhere. They don't have to be created adjacent to a university. They could be put anywhere in any number of communities and linked back to universities or other technology-creating organizations.

The third point is that the four ideas themselves illustrate one part of the problem, and that is, multiple agencies with multiple missions all trying to do similar types of things in different environments with different rules and, as you stated at the beginning of your testimony, their heart isn't always in it. The Treasury Department's heart isn't necessarily in the building of economic development opportunities in northern Manhattan. They have other objectives.

But what we think is something that is badly needed is one-stop shopping. One place where one can go where someone can interact with, either from a business perspective or an intermediary organization perspective, with one organization interested in the whole community and the development of the community, the investment

in the community, and not this multiplicity of agencies, each of which seems to want to make people coming in with their hands out and go through a particular kind of dance.

Fourth, banking community education is required. Now, I am putting on my founding director hat. For all four companies that I have been a part of as a founding director, we have obviously had to raise money. In raising money, I can tell you unequivocally the banking community is uninformed about the process of technology development, the investment in technology development, and the linkage between technology development investments and economic development.

Chairman KANJORSKI. I am going to stop you now because I want you to continue on when I get back. I will skip to the vote and then we will get to it.

[Recess.]

Chairman KANJORSKI. We are sorry for that interruption. You were right on a very important point we wanted to get to, number four.

Mr. CROW. Yes, number four. I was wearing my director hat of technology-oriented economic development ventures, and one in particular where out of whole cloth in an area where one had not been able to develop software companies, we developed a software company, which in 1990 had no jobs, in 1993 had 120 jobs.

In dealing with the banking community, the banks looked at that company and even continue to look at that company without any recognition whatsoever of the process associated with—or between technology development and economic development.

I could elaborate further on that, but basically what I would say is that there is an inability of the banking community, even in the context of the four proposals that you all are considering, to deal with the special characteristics of technology-oriented companies.

They are different. They require a special focus. They have value, yet the banks don't recognize any of their value. They have——

Chairman KANJORSKI. The banks are still stuck on bricks and mortar and the heavy stuff.

Mr. CROW. They are stuck on bricks and mortar. They are stuck on longer term—they are stuck on immediate term versus long-term return. They are stuck on an inability to deal with the fact—they can't, for instance, accept the fact that the company might not want very much money for their employees for a substantial period of time.

They might want to invest a lot of money into specialized, very expensive equipment. It is sort of an unusual request that banks have a hard time with.

My fifth point is an argument for EDA, and an argument for EDA to be anointed, blessed, empowered, whatever, along the lines that I think that you have been arguing for in the sense that the Federal Government is missing an agency which has the power, has the clout, has the budget, has the array of policy alternatives that give it the capacity to help enable the building of what Will Ginsberg talks about as competitive communities.

It has the power to go into an area, isolated and apart from a university, and establish a mechanism—I am using this as an example, not as the only way to do things, but as an example, and

establish mechanisms within that community that can make that community take full advantage of everything that the great investments in science and technology that the Nation is making.

There is no agency that has that responsibility. There is no agency that has embraced that. There is no agency that has been given that type of power, and I will give you an example.

I have to tell you that we are struggling in the Washington Heights area of Manhattan, which is an economically disadvantaged community with a large immigrant population, a burgeoning population. We operate a medical center there with 20,000 employees. That medical center, except for the medical services that it returns to the community, except for the jobs in the medical center itself, has given nothing back to the community in terms of enhancing its ability to create new economic vitality and new economic energy.

We are trying to address that by building a research park in that community, by building community services around that research park to stimulate the development of new small businesses and so forth and so on.

Recently, one of Secretary Brown's policy staff was up on that site and we were walking around looking at all the things that we were doing and so forth and so on, and listing off where our investments had come from, so forth and so on, the Federal Government wasn't involved in any way, shape, or form in any of the activities that we were associated with for two reasons, with one exception.

The exception is that 200 meters from where we are trying to build this research park, and the research park, by the way, is being built in the middle of a homeless shanty area, I might add. Two hundred meters from that location, about $250 million a year in Federal and private funding is being spent on new biotechnology science and new biotechnology science outputs, new technologies.

In that 200-meter distance, a chasm is created between the agencies that are funding that work, NIH, NSF, and several others, and what we are trying to do across the street in this research park in the sense that none of those agencies are interested in any way, shape, or form in what we are doing to try to build this research park, trying to take some of that research and create jobs in that community.

Chairman KANJORSKI. Why? Why?

Mr. CROW. Because their mission is different. Their mission is to cure cancer. Their mission is to attack AIDS. Their mission is to develop a basic understanding of new biological systems or to create software to solve particular problems. That is what they are focused on.

The side effect, if you will, of trying to gain economic advantage in that local community from those investments is something that they have not factored into their calculus from the funding agency.

We have taken on this responsibility ourselves and in taking this senior official from the Commerce Department around, I had to just reiterate that what we were interested in doing was building a competitive community.

Now, what we were—the elements of that competitive community and then I will be done. Not only were we interested in building this engine for economic advance linked to this Federal science

research center located in an inner-city environment, not only are we trying to do that, but we are trying to build the support businesses that would make that technology-based economic development engine work.

That is, they can't sit up there in that community all by themselves. They have to be supported. There has to be an infrastructure. There has to be child care there, has to be all of the aspects that will make this into a place where jobs can be created, where people will be attracted, where people will be located.

Now, if we said, now, how do we go about getting assistance to do all of those things, NIH isn't there, NSF isn't there, you know, we have to move child care centers, we have to build community training centers, we have to do all of these things.

A single agency like EDA, if they could be appropriately empowered, could help create these pockets anywhere where one could bring in technology, empower that technology, and use that technology to create jobs, to build communities, to restore vitality to communities.

Chairman KANJORSKI. Who is the sponsoring entity for the technology center?

Mr. CROW. Columbia University is doing it on our own.

Chairman KANJORSKI. When Columbia set this up and drew these funds in, did they not have a plan to affect the community or—I mean, where is their sense of community?

Mr. CROW. There is a sense of community. The community sense in that particular location was through the delivery of medical services. That particular medical center has become the medical center for the 800,000 people that live in south Bronx and northern Manhattan. That is their principal medical center.

Chairman KANJORSKI. When they brought in this research center in conjunction with that, did they not think that this could create jobs? I mean, I do not understand.

Mr. CROW. No, no. The research center has been there since—for decades. The basic science research center has always been there. It has evolved over the decades.

We moved our medical center there in 1929. Research began to evolve around 1940. Only in the 1980's did the university say to themselves, we need to be taking the results of some of this research and using it to help build jobs in New York City.

The exodus of jobs in New York City is beyond any of the numbers mentioned today.

Chairman KANJORSKI. Doctor, Columbia University, like the University of Pennsylvania and Harvard, is renowned for its business.

Mr. CROW. Right.

Chairman KANJORSKI. Didn't anyone walk over to the business school and knock on the door and say, how can you take—develop some entrepreneurs or some business students who can come in and work with some of these technologies and spinoff jobs in this community?

Mr. CROW. That has not happened up until this point. That is happening now, and the university is taking it upon itself to try to make these things happen, and it is the type of thing which has been very complicated because the university has had to do this on its own.

The $30 million that we have come up with thus far to create an environment where this kind of thing can happen is only the beginning. We estimate that to do this project will be quite expensive over the long term.

The point that I am trying to make clear though is, and I could give you more details on what we did in Iowa where we took from whole cloth and built a situation—this is what I used to do before I went to New York City, where we took a situation where you had a university there located in a rural area where for 150 years that university had made no substantive contribution to the economy of that region, outside of agriculture, yet they had one of the largest engineering schools in the country.

They operated for the Department of Energy a national laboratory with about 600 people in it. They developed technologies which had led to industries that had flourished in France and other places, but nothing right there. Nothing in the backyard. Nothing in the town down the street.

What we had to do was find ways to leverage the funding that the Federal Government was already making. Where we ran into trouble was, and where we run into trouble in New York City, is that where do you go in the Federal Government? Where do you go? Where do you go to get help to do what I am talking about now?

Chairman KANJORSKI. Should we require a recipient of Federal grants to file an economic survey or economic statement with their grant so that—something like the Environmental Impact and Economic Impact Statement?

Mr. CROW. One could certainly require all recipients of Federal R&D funds to prepare for the government plans and mechanisms whereby they hope to capitalize on some of the products of their research for local and regional economic development, where they show a focus in their region.

Chairman KANJORSKI. Doctor, I am so frustrated. I am going to take a few minutes to go back and forth with you because we have a bill now that is moving through, and over the last 20 years, we have had 1.5 million research and development projects funded by the U.S. Government.

Mr. CROW. Right.

Chairman KANJORSKI. We have ongoing right now 150,000, and it amazes me that no one in the U.S. Government could tell you where they are, what they do, or their interrelationship to one another. There is no central data base anywhere.

Mr. CROW. Right.

Chairman KANJORSKI. How did this happen? You know, bureaucrats and government people aren't too much into that, but how in the world do the MITs of the world, the Columbias and everything that are involved in information gathering and all this, why did they not say, be wise if we related this, that a physiologist working on a problem in southern California should dial up and find out what the guy in Columbia is doing and the guy in Columbia may find out what the guy in Texas is doing. They may find they are solving that problem. It is almost within the academic community.

Mr. CROW. Within pockets of scientific activity, there is a fair amount of awareness and connectivity between groups, but what

we haven't done is we have not designed systems which do what you are looking for, which is, what is the national asset, where are our strengths?

What are we doing? What is the combined biotechnology investment of the Federal Government of the United States? Where is it going? What might it lead to in 5 years and what are our strategies to take advantage of that?

I think the principal reason we have not been able to do these types of things is that each individual agency has a mission which does not include economic development as a part of its mission. If you go to the Department of Energy, if you go to NSF, if you go to NIH, they will leadership service these types of things, but they will not try to think about it on their own.

If, in Commerce, one could imagine that the Commerce Department ought to be thinking about these types of things. If in Commerce somehow, either a unit within Commerce or someone could be empowered to start taking on those kinds of functions, I think, you would find that universities and other recipients of Federal R&D funds would be responsive. They want to be responsive.

I know at our institution, 240 years old in the city of New York, it is a new place, it is a new culture. There is a new orientation. We are committed to trying to deal directly with the future of the city that we live in.

That was not the case in a direct sense as the decades have rolled by. It is the case today.

[The prepared statement of Michael Crow can be found in the appendix.]

Chairman KANJORSKI. Thank you very much for your testimony. I am looking forward to getting to the questions and answers but I do not want to impose on you.

Ms. Klein, if you could give your presentation so we could really get to a round session here.

STATEMENT OF EVA KLEIN, PRESIDENT, EVA KLEIN & ASSOCIATES, HIGHER EDUCATION DEVELOPMENT CONSULTANTS

Ms. EVA KLEIN. Thank you, Mr. Chairman, and members of the subcommittee for the opportunity to present comments today.

To address the aspects of H.R. 3853, H.R. 2191, the Clinton administration proposal, and the subcommittee's own draft bill, with the chairman's indulgence, I would like to make my comments about that in a much broader context of what in my view are the economic growth needs of communities and how those might be addressed more comprehensively which has already emerged as the theme of the day.

I think we have four goals for the Federal agenda. I want to say what those are. I want to briefly describe two changes I think are going on, one of which we have already begun to talk about, and then examples are in my written testimony, so I won't go into them today, and then conclude with some recommendations.

First of all, I think that what you are seeking to do in trying to find the right way to do is to provide not only direct financing mechanisms, but comprehensive support to businesses. What we need to do is make businesses succeed, and that needs—that kind—that array of programs needs to focus on a full range of their

developmental needs, not only financing, but technical assistance, access to new technology, particularly for old companies that need to modernize, labor force support, and upgrading export assistance, and all the array of financial.

Second, we need to link the programs of support business to the communities and regions that are trying to define what their economic goals are. As others have already said today, especially Assistant Secretary Ginsberg, so that means that the assistance needs to be delivered perhaps not through the ordinary channels, but through a system of qualified community-based organizations that are the leaders in those regions or communities for determining strategic direction.

What industries are the targets? What is it we are trying to accomplish? What will make our economy viable?

Third, and I almost shudder to use the word university, in my view, I think we really need to aggressively tap the resources of our colleges and universities, and I would argue that by that I do not only mean the 100 top research universities, but we have 3,300 institutions of higher learning in the country and therefore there is one in almost every community and at different levels.

They have roles to play, and in addition to the colleges and universities, other not-for-profit institutions, medical, social, cultural, and special purpose not-for-profits in this endeavor because they have in—they are in many cases the largest employers, the major economic force in small communities and in many disadvantaged communities in rural areas.

And finally, as we have already begun to hear from others, the fourth goal ought to be to coordinate at the Federal level. I certainly don't know how that mountain should be scaled, but one-stop shopping is Dr. Crow's way of putting it, others have put it another way.

We need some way to see if the EDA can't become a crosscutting agency that oversees, coordinates, and helps to piece together work and programs that flow through other places, like child care money and other kinds of support, all of which end up addressing economic development issues.

Why is that important? I would like to take a minute to talk about what I see as two huge changes that have begun to occur in the last less than 2 years.

Number one, out there, the economic development profession itself and the organizations, the people in them, really used to think that their business had to do with smokestack chasing, with putting together incentive programs, with figuring out how to move 200 jobs from place A to place B, and what became, in my view, an increasingly counterproductive bidding war and a process that was very expensive and only ended up robbing jobs from your community and moving them to someone else's district.

Finally, in the last 2 years, I think the profession of economic development people has finally begun to realize that that is not what their job is. That, in fact, they have to be the orchestra conductors for the violin section and the horn section, and they have got to, in their communities attempt to organize and focus a quite bewildering array of services characteristics, being K to 12 education,

youth issues, housing issues, quality of the environment, crime levels, adequacy, and variety of housing stock.

Because what we have figured out is that economic development is much more than just putting in roads and writing flashy marketing brochures. It really is an issue of creating viable communities and viable regions where the quality of life is attractive and the business support infrastructure is in place so that companies that are there will want to stay there and companies that are not there will want to be there. And the community itself will create some of its own economic activity.

So, the point is the profession out there is starting to see that and move in that direction. Therefore, I think a major implication for EDA is that EDA can't afford to lag behind the reality of what is going on out there at the State and local level.

Second, and this one I expect, Mr. Chairman, you are probably going to want to take me on. The other really big trend, just at its very early stages, is that I see higher education beginning to evolve an economic development mission.

And so that you know that I agree with you, I think the institutions have not always seen themselves as relevant economic development players. I think they have been self-focused. They have been self-indulgent. The ivory tower idea really has been the way it has been for a long time. And I have spent the last 6 years of my life trying to preach to that group why they have to change. I spend a lot of time doing that.

I am just beginning to see, and maybe this is cause for hopefulness, the beginnings of a major change of attitude among the institutions of higher education. It is beginning with a very few prestigious research universities in urban settings like Columbia, like Yale, like University of Pennsylvania. And it is also beginning in the historically service-oriented land-grant public research universities, those institutions have always had a more service-oriented mission.

I would not sit here and tell you that they all get it so far, but I see very positive signs. Every day I am learning about new anecdotal stories about initiatives being undertaken, and I think, therefore, there is a huge opportunity for Federal policy to both encourage and direct that. It is like a sleeping giant about to wake up. And you can help tell that sleeping giant where to throw its weight.

So I will skip over the examples, I had some in addition to the Columbia example, which are in the written testimony and just go to some suggestions at the end.

First of all, from the existing drafts and bills, it would be really a great idea to create a broad array of financing tools that would include equity alternatives as well as debt and to either demonstrate or launch those as early as possible.

Second, I would urge you to consider defining the term "economic development" itself as broadly as possible to mirror the realities of what really is going on out there in America in communities and regions.

That is that for EDA, along with infrastructure and direct business financing, economic development has to mean a concerted course of action to truly support communities in solving the prob-

lems that keep them from being viable. This means solutions to the problems of schools, distressed youth, housing, physical environment, community health, business support infrastructure, all are part of our national economic development agenda, and so the issue of how to have all the agencies pulling in the same direction is important.

Third, we need to focus comprehensively, as I said earlier, on the needs of businesses ranging from prestartups to those mature businesses that need to modernize.

Fourth, we need to find a way to be flexible about the notion of qualified intermediary. Institutions like Columbia University through the Research Park that they are creating and some of the others that I cite in the examples in my written presentation, may be in a far better position to know than a community development corporation or a bank where and how the money could be invested to the best effect for that community.

So either we have to develop some criteria for having other kinds of intermediaries or if banks are going to continue to be the intermediaries, we need to find a way to plug these other organizations into the process. Dr. Crow put it another way. We need banker education. If we can't do that, we need to get someone else in the stream who can tell us where to put the money.

We need to help universities accelerate this new movement that is happening to want to really be partners in economic development. And this is particularly true in the case of the research university and the technology based economic development, but I would argue that the others also have roles to play in work force development and solving other community issues.

To do this, it would be really nice for them to have a clear Federal mandate. At the moment, the message that is coming through from Congress and elsewhere is quite mixed. For example, NIH wants to fund basic research. Sometimes they talk about applying technology, but not really. It would be nice if there could be a clearer message.

And finally, let's try to broaden the historic mission of the EDA. If the Federal Government is going to have an agency with that name, the reality of its programs and the policies must be updated to reflect the realities of the coming 21st century already taking shape at the State, regional, and local levels.

So if we can enlarge its strategy and vision to be the Federal Government's primary agency for either direct delivery or for coordination across other agencies of a broad array of programs, we will be in a better position to support communities and revitalize economic growth. EDA, for example, could have interagency planning and coordination responsibilities with NIST and NSF and DOE and hosts of others that are doing what you said earlier, putting money out there and no one is talking to each other.

Thank you very much for the opportunity to present comments.

[The prepared statement of Ms. Eva Klein can be found in the appendix.]

Chairman KANJORSKI. Thank you very much.

You know I probably sound today like I am the most antiacademic Member of Congress that there is. I guess I want to erase that, but I have had some horrible experiences recently. I

agree with you in your testimony that there is a change that is occurring. But there is also an academic culture that if it does not die, will destroy an awful lot of sympathy toward funding academic ventures.

And I would have never thought I would hear myself saying that. But I am dealing with professors now at some of our academic institutions that have been receiving grants for 10, 20, and 30 years, total Federal funding of their salaries, their investigations, their projects, and they have never taken them anywhere. And then when you try to get their advice, they want $300 an hour for consulting fees. You have to call them up on another telephone, ABC consultants.

And I get the sense that they have lost their direction in life. They have lost their morality, their ethics. They have become a part—I guess everybody has jumped on the thing that there is no distinction between professional life, academic life, and business life. In my past, I could see worlds of distinction. Businessmen made money but they never had a great deal of respect for their ethics. Now academics want to make money like business people and have been willingly throwing away their ethics.

I wanted to go through a few of these, the problems that we may run up against. We sit here and have small universities, small colleges that want to be participants, but when they compete at the national level, whether it is the Science Foundation, NIH, Department of Energy, Department of Defense, they are just not there.

Ms. EVA KLEIN. There are no programs structured through those agencies that are appropriate for them to compete through. The point is that we need to create a new mechanism that is focused at tapping the higher education resources of this Nation that are still considerable, one of the last industries that we have not lost ground on to Europe or Asia. In some communities, the only resource, but there is no vehicle for those institutions to get some help seed money for an economic development program.

For example, just to get one example in here that is not even in the printed material and is not a research university, I have a client that is a very small Catholic women's college in West Terre Haute, Indiana, 145-year history, and it is still devoted to the education of women.

That institution is going through some planning and trying very hard to focus itself on some very current problems like how to train women to become entrepreneurs and support them in starting businesses. There is no place anywhere for an institution like that to go. With a little bit of help and planning money because they have no extra nickels, and a little bit of program money to start a program to finance the women to pay for the child care so that the women—they have a day care center, but to recruit some women into the program, there isn't any structure for them. It doesn't exist.

Chairman KANJORSKI. Our problem is even when the structures do exist. Let me give you one of our problems with the Reemployment Act. Most people do not realize we have 124 job training programs in the United States. I was just jotting some of these things down. You asked about one-stop shopping.

I have been in Congress for 9½ years, and probably one of the few public members that is actively involved in economic development here. I cannot give you an idea within 50 of how many economic development programs we have. I learn about new ones every month.

Mr. CROW. There is none in any of the science agencies. We know that.

Chairman KANJORSKI. Our problem seems to me that we are facing this transition of culture. That we still have the small minded jurisdictions on the bureaucratic level here. You do not get into my house and I do not get into your house. That is what the EDA is suffering from. There is some little thing out there with a great name. A kid with will because we know each other outside of the hearing room, and his agency is minute compared to the Defense Department.

The Defense Department spent about $9 billion a year on economic development, totally uncoordinated with the Department of Commerce or economic development. They are a stepchild to the Defense Department. The Defense Department literally funds more of them than out of the general fund of the Congress.

Ms. EVA KLEIN. Maybe we need a strategic plan to restructure the Federal Government.

Chairman KANJORSKI. We do, but that is a 5- or 10-year process.

Ms. EVA KLEIN. He is not writing that down, is he?

Mr. CROW. One comment relative to why it is that universities are perhaps not as responsive and it goes to the design of the system and I will use our own university as an example.

We submit more than 2,000 individual research proposals a year. We are funded by more than 1,000 individual grants per year from the government. All of those grants go to the individual faculty member to pursue the research interest that they have. The university, the central administration where I sit, we have the broader vision of thinking about the role of the institution in the community, the broader vision about how should we coordinate between and among all of these people.

How should we go and help the smaller school or how should we make our business school and move them in a certain direction to take advantage of their skill sets yet the government, if we were to take any of the money that we were given by our government through indirect or direct costs and divert those dollars for these types of purposes, we would find ourselves in hot water with the auditing agencies who are interested only in the expenditure of those dollars for these 1,000 individual discrete projects and so we become hamstrung as an institution. We can't do what we socially and economically know we should be doing.

Chairman KANJORSKI. The politics of it is so much nicer if you are the director of NIH to send out and have 1,000 professors to owe their allegiance to you, instead of Columbia University owing their allegiance to you. And that is what I am talking about, the academic culture has become prostituted, and unless the universities and the academics sit down—as an outsider, the faculties have taken over the institutions. And they——

Ms. EVA KLEIN. They are not—they are not the enemy or, if they are, they don't have to be. I really have to give an example about

Columbia University because I have been working with them on the plans for this Research Park for a while. There are some very, very senior doctors, very influential, powerful doctors who have been consulted from time to time about the planning process for this Research Park.

And one of the things that they kept asking about is how is this Research Park going to benefit the academic mission of Columbia's Health Sciences Program. And we had answers for that, actually. And then we were talking about the economic development potential and they came up with the most innovative ideas in how to turn the science into economic development outcomes and some ways of trying to influence that process.

One of them said, why couldn't we get NIH to really clarify its policy on technology transfer? And then this could be in Columbia in every basic science research proposal that we submit to NIH have a requirement that as part of the proposal, there be a component for—a technology transfer component for what we will do to begin to look at applications possibilities and products and whatever out of the research. And he was sincere.

Chairman KANJORSKI. I know, and he is right. But if it is just on paper and it is another one of the conditions to meet, and that is all it is, it doesn't mean anything.

Ms. EVA KLEIN. He was saying that Columbia's people would voluntarily do that. They would build in the components and they would say we have got these commercial companies across the street and we are going to build into this grant proposal Phase I to work with company X to try to create a product and some jobs.

Chairman KANJORSKI. Excuse me, thank you very much. I know you have a plane to catch. We are going to excuse you. We are going to take advantage of these two.

Mr. KARVONIDES. Thanks very much for the opportunity. Go ahead.

Chairman KANJORSKI. No, no, I do not want to suggest that these people out there are antagonistic to our society. And they are the best minds in the country. Let us face it, our problem has been that we have allowed, it seems to me, the seniority system that we have in the Congress to spread to the seniority system that we have in faculties. That if you do not control the biggest grants, you are not the biggest rooster in the henhouse, all of these stupid things that people don't really need.

And we are missing that point if we made the choice of our professions to do something. I did not become a Congressman to make the most money in the world. And on the other hand, if you became a physicist, you didn't think you were going to be the most popular person in the world because nobody would know what you do all day. Those choices were made. Unfortunately, you get into that little competitive field.

For instance, I deal a lot with some of the science communities because, when I hear of a new technology, I start to find out what it is and who does work in it and I am now in the Physiology Association and I find fascinating how these guys will not trade information with each other. It is because it is publish or perish, and if I gave you any insight of my intellectual idea, you might run off

and destroy my future career. I did not think there would be petty things like that.

Mr. CROW. One of the things that the government has taken care of when they have given responsibility of trusteeship to the universities with the thought that the universities can take them and enhance economic development, we are attempting to do that. In 1992, more patents came out of universities than had come out in the previous 10 years.

Chairman KANJORSKI. I wanted to go into that. I am familiar with that. That is a system where we ought to be very careful in universities. I visited three universities recently and worked with people who have extraordinarily good discoveries that private industry has come in and made an agreement with them and they are so unsophisticated with the business world that the private people have no intention of developing the technology, they are using it as boiler house operations to sell stock on the market, and they are ripping off a fortune and the people are innocent in thinking that they are going to be wealthy and the work product is going to solve a great American need.

But they know if you take a large institution like Columbia and have a very outstanding scientist who has the patent name, you can take it and march it down to Wall Street and put out a stock issue and rip off a lot of money and never have any intention, but you make a great profit. I have seen it in three major universities, this happening. And I got into trying to figure out how they are marketing it.

And everybody has a marketing department that is not coordinated and most are poorly thought out. Most academic institutions should not be in the field. Partially, the legislation that I talked about creates a corporation to market technology. I think that is the way it should be done, not as a single marketer, but if you are in an institution and you do not want to work a separate marketing operation, you ought to have somebody do it for you.

Unfortunately, what we have allowed to happen is that the MITs and the Stanfords have found a new vehicle to build endowments so they have taken the work product of their scientists and they have engaged in very good business operations that have been very successful and they are growing with leaps and bounds but that is the MITs and the Stanfords. The poor guy in corn country is going to get ripped off by some fast guy on Wall Street and it is happening every day.

Mr. CROW. I am smiling because I come from corn country.

Chairman KANJORSKI. But there was a guy in the South that got ripped off.

Mr. CROW. There is nothing that you are saying that is not completely accurate in the sense that such learning by doing is occurring in this case. I will say that some institutions have learned more than other institutions, yet we don't have mechanisms to share what we have learned. And it goes back to the fact that the Federal Government says to someone like us, Columbia University, here is $250 million for 1994 for you to carry out 1,000 different research projects. And then on top of that, there is another $100 million coming from the State of New York and from private companies and so forth and so on.

This year we will raise $35 million in income from our intellectual property. Throw that into the pot, also, which is the largest of any university in the United States starting this year. Throw that all into the pot and then the government will say to the university, we want you to be a force for economic development. We want you to help build the community. We want you to be of more value to other universities in the region. We want you to be a major technology development and economic development force. And then they say, we don't know how we are going to do it. There is no money, that we have to help you do this.

Ms. EVA KLEIN. Or a mandate.

Mr. CROW. Or a clear mandate from the agencies. So you begin to take those steps to do that and the agencies that are funding the individual projects literally couldn't care less. Your radar is beaming in on the universities who are performing the tasks that people are asking them to do. The people that are asking them to do tasks should ask them to do something different, which is that they should ask them as institutions to take on certain missions and certain roles and then help to provide the means, not from new dollars.

There is lots of dollars. Money is not the problem here. It is how it is being spent. Ask them to help empower the universities to carry on these missions. I will tell you this—through the grants program, through somehow taking some of the indirect cost and telling the universities that economic development has to become a part of their mission through the indirect cost.

I will add one other thing relative to this, and that is the government has told us that if we take Federal funding, we are required to find and discover every invention, to take those inventions, to act as trustees for those inventions, to find American companies to marry with those inventions, and to encourage economic development through this technology transfer process.

Yet, the government provides no means for us to do that in the sense of the complex task of setting out in a single university—you already mentioned how many projects there are across the country—there is no money that goes for that. We end up literally having to, in some cases cajole our faculty members to do—to even report their inventions to us, the university.

Ms. EVA KLEIN. Despite all that, a reasonably better job is being done every year by these universities that are identifying the disclosures, getting the faculty to turn them in and managing the investments to license them and profit by them.

The problem is there has been no methodology, there has been no game plan, and it has been a lot of learn-as-you-go, a lot of on-the-job training.

Chairman KANJORSKI. Let me ask you this: Do you think that one of the driving forces in that basic research is the pot of gold at the end of the rainbow for the individual researcher? My impression is——

Ms. EVA KLEIN. May I answer that. I really believe that we have a very longstanding economic principle in our entire democratic and free-market structure that has led us to decide that where the government invests in industry, and commerce is at the very front end by investing in basic research. I think this is almost a tenet

that we have so long held that we almost forget where it came from.

But it has long been a notion in America that it is the Federal Government's responsibility to pay for the free thinking, for the brain work, for allowing scientists to sit in their labs and dream and scheme and come up with new things and that it was industry's job to then take that and convert it into applications and technology and products and businesses and markets and profits.

Chairman KANJORSKI. But who should own the benefit?

Ms. EVA KLEIN. The thing we have never done well in the middle is figured out how to connect that brain trust that we pay for in the universities, with the industries. And that is what economies like Japan and others do a better job of. They make sure that there is a path for industry, their industry, not somebody else's, to benefit from that expensive front-end brain work. We pay for it and then we let anybody buy it and take it away.

What has happened since 1981, that one change is that the universities now have some greater control and some mechanism for seeing that American industries get a crack at this. It is still not a perfect system.

Chairman KANJORSKI. But their control is they are making, if you will, a contract with the devil. Most of the contracts are made with the Fortune 500 companies.

Ms. EVA KLEIN. I don't know if that is still true, if it was. I think that it is beginning to change. Part of the problem is that the parent company—there are only two or three companies, now it is down to one, just Munsinger, that have been the intermediaries to screen the disclosures and turn around and market them to industry.

It has been closely controlled by a couple of service providers for the universities which until recently many of them did. Those couple of companies probably did sell only to the Fortune 500. Let me say to you that in the written version of this, I talk about the Research Park and the incubators. There are more than 130 of them in the United States. Something like 450 worldwide.

They now are alternative vehicles for doing that away from the Fortune 500. The incubators and the Research Parks that are affiliated with universities are places and programs where we can begin to move the technology from the university directly to small growth companies.

Chairman KANJORSKI. That gets us back to this question of equity. Does the government belong in that business, providing venture capital and equity?

Mr. CROW. Providing venture capital and equity?

Ms. EVA KLEIN. It is in your bill. If it is done on a revolving fund basis and no one ends up pocketing money, I don't know why not. It could be. I think the debt instruments will work very well, too, but the problem is that we don't get that money into the hands of the institutions who are at the frontlines of seeing the businesses that could benefit from them. Banks are notoriously bad in doing that.

Chairman KANJORSKI. Banks are obsolete in our system. They just do not get it.

Ms. EVA KLEIN. They don't know. They can't get it. If you don't look like a traditional credit to them, forget about it. But these emerging university-related corporations that are running the research parks and the incubators like the one that Columbia is building, the universities and themselves, some other very interesting not-for-profits, two of them are described in here that are not universities but other kinds of things issue in the direct business of figuring out the strategies for community economic development and pulling the players together and getting them moving.

They know what the needs are and where the action is, and they would be far better scenes for figuring out what businesses should get money and what for and how the things should be followed.

Mr. CROW. I wanted to add to that. The faculty at universities are not driven by economic incentives, despite what recent or piling up experiences that you have been having, that is not the case. You could go—that is just not the case. That is not what makes our faculty tick.

I am in the academic leadership of our university and that is not what makes them tick. They are driven by their desire to discover, primarily, and to teach. Those are the two principal things. There are exceptions, but those are the principal objectives.

Chairman KANJORSKI. The reason I bring that up, we changed the law to allow the professors to file the patents and the researchers to file the patents. And it seems to me, in many instances, the universities are then taking those patents and doing the development work and I am trying to figure out if it is the universities that are trying to profit on the research and development or whether it is the professors, because——

Mr. CROW. The professor that works for an American university almost always owns nothing.

Chairman KANJORSKI. So he gives it to the university?

Mr. CROW. By requirement, yes.

Chairman KANJORSKI. So it is the universality we are having the problem with because they want to keep this as their tool. So what we find is that they are not doing a very good job of marketing it for various reasons. If you go to a big private university in a State that gets a lot of State funds, I am not thinking of Columbia, the President will sit there and say, whoa, I am not going to share this with Boston or Philadelphia or Chicago.

I want it done in my State because, next year, I have to go to the State legislature and tell them that I am asking for $75 or $100 million for research and development and they are going to ask me how many jobs and how many businesses did I create. They are very parochial in their attitude. When I was trying to talk them into—they had a great invention and another group of universities had a great invention, and if you put them together——

Mr. CROW. There is one group that has done that successfully, it is called bundling. The thing about university discoveries almost always is that because they are not driven by the market, unlike a discovery in a company, they are driven by a completely different set of characteristics. Standing alone, that university discovery by itself is almost worthless. There are some exceptions and every once in a while you will get home runs, but generally they are worthless.

This group in Chicago we have visited and we have looked at them and they are a tremendous evidence of success. They take and say this professor here discovered X and this professor discovered Y, and this professor discovered Z, if you take X, Y, and Z together and you have a company.

And these guys have gone in and started these companies. They run them themselves and they put in just a few dollars. You would be surprised what this group has done with $50,000 or $100,000. It is called Arch Development Corp.

Chairman KANJORSKI. In Chicago?

Mr. CROW. Yes, and they formed a venture fund called Arch Venture Partners led by a guy named Steven Lazarus and they have gotten 13 companies in the last years that they started. One is called Illinois Superconductor which is now traded on the New York Stock Exchange. They took discoveries from the University of Chicago, Argon National Laboratory, and a few other places, and they bundled those together and formed a company from that activity.

And your idea was sort of along that line. Let's take these technologies together and have the money to make investments and put them together and something will happen. I don't think universities would be necessarily resistant to that because they are looking for their stand-alone, usually worthless technology to have some value added to it.

Chairman KANJORSKI. Well, in one of the bills I have put together, if we had the uniform data base that was standardized so that it could talk to each other, and then you have a centralized marketing tool so that it would be very broadly exposed to the public, you find the entrepreneurs and then finally, all you need is the people to make the deal to sign off on the licenses and then you need a funding mechanism, a venture capital funding mechanism. I think that is the way you create thousands, tens of thousands, hundreds of thousands of great jobs creating great wealth, solving great problems. Unfortunately, if we leave these things to grow like Topsy, it is not going very well.

Mr. CROW. It will be haphazard. I think one thing that you can have been cautious of, the rate of change, the rate of learning in these institutions is very rapid, and so things are happening that maybe were not even happening a year ago.

Chairman KANJORSKI. In the last 5 years, we have spent $550 billion on research and development, and the——

Mr. CROW. Sixty billion at universities of that $550 billion.

Chairman KANJORSKI. In the last 5 years, we have had 314 licenses sold for a grand revenue to the U.S. Government of $36 million.

Mr. CROW. This year, we have 150 licenses in place from Columbia University alone. This year, the year ending at the end of next week, this office reports to me, $32 million in income based on $3.1 billion in sales of products directly derived from licenses from technology licensed by Columbia University.

Chairman KANJORSKI. This last year.

Mr. CROW. In this year.

Chairman KANJORSKI. That is a very important figure that I would like to have because that tends to prove that maybe we

ought to go to the academic institutions to get the format how to put the deal together as opposed to the government.

At NTIS, these are the figures, they are national laboratory patents and fully government financed patents but can you imagine $36 million. It has cost us more money to pay rent.

Ms. EVA KLEIN. Is that the money spent in the Federal labs?

Mr. CROW. That is total R&D.

Ms. EVA KLEIN. So $60 billion is university?

Mr. CROW. University share; right.

Ms. EVA KLEIN. Well, it is commonly become an increasing subject of discussion of how to get the Federal labs to become effective technology transfer players.

Chairman KANJORSKI. What they have done by legislation, we formed CRADAs.

Ms. EVA KLEIN. Right.

Chairman KANJORSKI. The biggest Fortune 500 companies have come in and by putting down 5 or 10 percent of the cost, they buy all the brain product. I think that is incredible.

Mr. CROW. Your colleague from Des Moines, Neal Smith, began making certain that this institution out in the corn fields had the means to grow home grown businesses based on technologies developed at the home grown university on a statewide basis. That has happened and there is one company, just for example, which sits there in the middle of the corn fields that has 100 jobs in an industrial sector that didn't exist. I draw that to your attention.

I also draw to your attention an article that was in the *Economist* looking at the city of Salt Lake and the evolution of its economy and the role of the universities and they had this job bubble chart.

Chairman KANJORSKI. I was just out there; 25,000 new jobs and 600 new companies in the last 5 years. Word processing. WordPerfect.

Mr. CROW. Right. Software.

Ms. EVA KLEIN. In trying to distinguish between the community's number of jobs, if you try to distinguish between those they took from elsewhere versus those they generated as new jobs, you will find typically where the new jobs are being created as opposed to be stolen from another place, the universities are in the center. And that is why we have to help them to figure out how to do that and channel the new energy, and adjust policies if necessary to have them do it right. They are trying and they are flailing.

Chairman KANJORSKI. Well, I want to thank you for your testimony, both of you. I really do appreciate it. That is why I came back several times. It is vitally important. I think you have contributed a great deal in your written testimony and this oral testimony, but I ask you further to be contributors as we move along in this process, if we could get back to you and perhaps even have you join in a roundtable discussion.

I think this is the most vital important area of the whole future creation of wealth in this country and we are going to end up spending tens of billions of dollars over the next decade to do it. But right now, it is in the old methodologies and the old ways to do it and most of that will be wasted. So thank you very much.

[Whereupon, at 5:38 p.m., the hearing was adjourned.]

A P P E N D I X

June 22, 1994

OPENING STATEMENT OF THE HONORABLE PAUL E. KANJORSKI

CHAIRMAN

SUBCOMMITTEE ON ECONOMIC GROWTH AND CREDIT FORMATION COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

June 22, 1994

This afternoon the Subcommittee will examine several legislative proposals to provide new financing tools to assist in the creation of new jobs and the promotion of economic development.

As many are aware, this is a subject in which the Subcommittee has a keen interest. In the course of numerous hearings over the last two years, we have been told, time and again, that important changes are occurring in our understanding of the impediments many distressed communities face in trying to revitalize their economies.

It is increasingly recognized by many State and local governments that infrastructure development, as important as it is, is simply not sufficient to successfully implement a strategy to promote economic development and facilitate the creation of new jobs. Frequently, the critical element which determines success or failure of economic development efforts is the availability of business financing assistance.

Despite this growing realization, the Federal Government lags behind many States in providing this often vital assistance. In my opinion, this seriously handicaps the effectiveness of our overall economic development efforts.

Today's hearing will focus on four legislative proposals to address this shortcoming. First, Representative Klein has introduced H.R. 3853. This bill would authorize the Secretary of the Treasury to participate in, or guarantee loans, made by banks and other qualified lenders for businesses with potential for expansion and growth and for other viable economic development projects.

I want to commend Mr. Klein for introducing his bill, H.R. 3853, to create new financing tools to stimulate job creation, private investment, and economic development. Throughout his tenure on the Economic Growth Subcommittee, Congressman Klein has consistently shown great vision and a dedication to create new employment opportunities for all Americans. He has demonstrated an enormous capacity for thinking through some of our economy's most intractable problems and for proposing new and innovative solutions. I am confident that any economic development and jobs creation legislation considered by this Subcommittee will incorporate many of his ideas

Second, we will examine H R 2191, introduced by our colleague Representative Traficant This bill would authorize the Secretary of Housing and Urban Development to

carry out a demonstration program to make grants available to community development corporations for reducing interest rates on loans for economic development activities in five federally designated enterprise zones.

Mr. Traficant is well known for his tenacious efforts to defend American jobs from unfair-foreign trading practices and for his commitment to working men and women across this country. I should also note that H.R. 2191 was jointly referred to both this Subcommittee and to the Subcommittee on Housing and Community Development. As he knows, in the version of the Housing reauthorization bill reported out by that Subcommittee, and recently approved by full Banking Committee, many of the objectives of H.R. 2191 are reflected in that legislation. I commend him for his foresight and leadership in this area.

Third, we will hear from the Assistant Secretary of Commerce for Economic Development, the Honorable William Ginsberg, on proposed legislation drafted by the Clinton Administration to provide new loan guarantee authorities for the Economic Development Administration. As the Assistant Secretary knows, similar provisions were adopted by this Subcommittee and passed by the full Banking Committee, as part of its version of H.R. 2442, reauthorizing the EDA. Unfortunately, the version of that bill which was ultimately brought to the House floor only provided for a study of new EDA financing tools.

The Assistant Secretary was only just confirmed as this Subcommittee completed its work on EDA's reauthorization legislation. While I have had the pleasure of numerous conversations with Mr. Ginsberg, this will be his first opportunity to testify before the Subcommittee; so we welcome the Assistant Secretary and look forward to a continuing cooperative relationship as we attempt to work through these issues.

Finally, all of today's witnesses have also received a copy of draft legislation prepared by Subcommittee staff. In addition to sharing their views on the first three legislative proposals, they have also been asked to comment on the draft legislation, and to address the broad issue of the need for new tools and direction in Federal economic development programs.

The draft legislation would authorize the Secretary of Commerce to conduct four demonstration programs for financing assistance for economic development. These demonstration programs would focus on loan guarantees, interest rate subsidies, equity financing, and credit enhancements to securitize economic development loans for the secondary market.

I want to welcome all of today's witnesses and thank them for taking time from their busy schedules to share their thoughts with us.

103d CONGRESS
2D SESSION

H.R. ____

To enhance the availability of credit to businesses in order to foster economic growth and create new employment opportunities in communities facing economic distress, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

__________, 1994

Mr. Kanjorski (for himself,) introduced the following bill; which was referred to the Committee on ____

A BILL

To enhance the availability of credit to businesses in order to foster economic growth and create new employment opportunities in communities facing economic distress.

Be it enacted by the Senate and the House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the Economic Growth and Stabilization Financing Demonstration Act 1994".

SEC. 101. GUARANTEED LOAN DEMONSTRATION PROGRAM.

(a) IN GENERAL-- In order to study the feasibility and desirability of a program of loan guarantees for economic growth

and stabilization in communities facing economic distress, the Secretary is authorized to guarantee loans made to private borrowers by private lending institutions, community development financial institutions, and other lenders as the Secretary considers appropriate, except that the Secretary may guarantee loans less than $750,000 only if the borrower is not eligible for a loan guarantee under the Small Business Act.

(b) TERMS AND CONDITIONS.--

(1) IN GENERAL.--The Secretary may make such guarantees upon application of the lenders and upon such terms and conditions as the Secretary may prescribe.

(2) PRESUMPTION OF VALIDITY.--Guarantees under paragraph (1) shall be conclusive evidence that the guarantee has been properly obtained, that the underlying loan qualifies for such guarantee, and that, but for fraud or material misrepresentation by the holder, such guarantee will be presumed to be valid, legal, and enforceable.

(3) LENDER RESPONSIBILITY.--No guarantee will be provided unless the lender is responsible and makes adequate provision for servicing the loan on reasonable terms and for protecting the financial interest of the United States.

(c) PREFERRED LENDER PREFERENCE.--To the extent feasible, the Secretary shall exercise the guarantee authority established under this section on a preferred lender basis and authorize lenders, in accordance with agreements entered into between the Secretary and such lenders, to take such actions on the Sec-

retary's behalf as the Secretary deems appropriate, including, but not limited to, the determination of eligibility and credit worthiness and loan monitoring, collection and liquidation.

(d) TARGET SUBSIDY RATE.--In exercising the loan guarantee authority provided under this section, the Secretary shall attempt to administer the program in a manner which results in a subsidy rate not to exceed approximately 6 percent of the amount of the overall loan guarantees.

(e) AUTHORIZATION OF APPROPRIATIONS.--Of the funds authorized to be appropriated under section 106, for purposes of this section there are authorized to be appropriated $50,000,000 per fiscal year to cover the costs (as defined in section 502(5) of the Federal Credit Reform Act of 1990 (2 U.S.C. 661a(5))) of loan guarantees issued pursuant to subsection (b)(3) of such section. Such sums shall remain available until expended.

SEC. 102. INTEREST RATE SUBSIDY DEMONSTRATION PROGRAM.

(a) IN GENERAL-- In order to study the feasibility and desirability of a program of interest rate subsidies for economic growth and stabilization in communities facing economic distress, the Secretary is authorized to pay interest rate subsidies to private lending institutions, community development financial institutions, and other lenders as the Secretary considers appropriate, for loans made to private borrowers.

(b) TERMS AND CONDITIONS.--The Secretary may pay interest rate subsidies upon application of the lenders and upon such terms and conditions as the Secretary may prescribe, except that no interest rate subsidy may be provided unless the lender is

responsible and makes adequate provision for servicing the loan on reasonable terms and for protecting the financial interest of the United States.

(c) PREFERRED LENDER PREFERENCE.--To the extent feasible, the Secretary shall exercise the interest rate subsidy authority established under this section on a preferred lender basis and authorize lenders, in accordance with agreements entered into between the Secretary and such lenders, to take such actions on the Secretary's behalf as the Secretary deems appropriate, including, but not limited to, the determination of eligibility and credit worthiness and loan monitoring, collection and liquidation.

SEC. 103. EQUITY FINANCE DEMONSTRATION PROGRAM.

(a) IN GENERAL.--In order to study the feasibility and desirability of a program of equity financing for economic growth and stabilization in communities facing economic distress, the Secretary is authorized to establish a demonstration program under which the Secretary may directly, or indirectly through grants to eligible intermediaries, purchase or commit to purchase warrants, subordinated debt, or nonvoting preferred securities of private United States businesses or nonprofit organizations and associations.

(b) ESTABLISHMENT OF FUND.--For purposes of conducting the program provided under subsection (a), the Secretary shall establish an Equity Investment Revolving Fund.

(c) DISPOSAL OF EQUITY INSTRUMENTS.--The Secretary shall endeavor to dispose of any financial instruments purchased

or guaranteed under this section within a period of 10 years after their date acquisition of such interest.

(d) USE OF PAYMENTS.--

(1) USE OF PAYMENTS TO THE SECRETARY.-- Amounts received by the Secretary from the payment of dividends and the redemption of financial instruments acquired under this section shall be deposited in the Equity Investment Revolving Fund and shall be available to make or guarantee additional investments consistent with this section.

(2) USE OF PAYMENTS TO ELIGIBLE INTERMEDIARIES.--Of the amounts received by eligible recipient intermediaries from the payment of dividends and the redemption of financial instruments acquired under this section--

(A) up to 50 percent may be retained by such eligible intermediaries to make or guarantee additional investments consistent with this section, and

(B) no less than 50 percent shall be returned to the Secretary to be deposited into the Fund established under subsection (b) to make or guarantee additional investments consistent with this section.

(e) INVESTMENT OF EXCESS FUNDS.--If the Secretary determines that the amount of money in the Fund exceeds the current requirements of the Fund, the Secretary may direct the Secretary of the Treasury to invest such amounts in obligations of the United States, in obligations guaranteed by the United States

Government, or in such other obligations or securities of the United States as the Secretary of the Treasury deems appropriate.

SEC. 104. SECONDARY MARKET CREDIT ENHANCEMENT DEMONSTRATION PROGRAM.

In order to study the feasibility and desirability of a program of providing credit enhancements to pools of financial instruments related to economic growth and stabilization activities in communities facing economic distress, the Secretary is authorized to establish a demonstration program under which the Secretary may provide credit enhancements to pools of financial instruments related to economic growth and stabilization activities in such areas.

SEC. 105. PERFORMANCE EVALUATIONS; REPORT TO CONGRESS.

(a) PERFORMANCE EVALUATIONS.--The Secretary shall conduct performance evaluations of each of the demonstration projects established under this Act to assess their effectiveness in promoting economic growth and stabilization in communities facing economic distress.

(b) ANNUAL REPORT. - Based on the evaluations conducted under subsection (a), the Secretary shall prepare and submit annually a report to the Congress containing a full and detailed account of operations under this Act. Such report shall include -

(1) performance measures established under subsection (a);

(2) an audit setting forth the amount, type, recipient, and source of disbursements, receipts, and losses sustained as a result of operations under this Act during the preceding fiscal year and since inception of the demonstration programs;

(3) recommendations with respect to program changes, statutory changes, and other matters to improve and facilitate the operations of the demonstration programs and to encourage the use of these programs by qualified concerns.

SEC. 106. AUTHORIZATION OF APPROPRIATIONS.

For purposes of this Act, there are authorized to be appropriated $90,000,000 per fiscal year. Such sums shall remain available until expended.

SEC 107. SAVINGS CLAUSE.

Nothing in this Act shall be construed as affecting the authorities of the Secretary under any other provision of Federal law, including the Public Works and Economic Development Act of 1965 (42 U.S.C. 3121 et seq.).

SEC. 108. SEPARABILITY.

If any provision of this Act, or any application of such provision to any person or circumstance, shall be held invalid, the remainder of this Act, or the application of such provision to person or circumstance other than those as to which it is held invalid, shall not be affected thereby.

REMARKS OF U.S. REP. HERB KLEIN

BEFORE THE SUBCOMMITTEE ON ECONOMIC GROWTH and CREDIT FORMATION

JUNE 22, 1994

Mr. Chairman and Members of the Subcommittee, I want to thank you for holding this hearing today on various legislative proposals to provide financial assistance for projects fostering economic development and job creation. One of those proposals is my own bill, H.R. 3853, the Economic Revitalization Act of 1994.

I applaud the work of the Subcommittee in searching for innovative yet cost-effective ways to help our urban and rural communities grow and prosper. All the indicators point to the fact that our economy is improving, but I believe we can and should do more.

One of the key elements of a strong economy is reduced unemployment and our small and medium-size businesses are this nation's greatest source of new jobs. Unfortunately, the growth of those same businesses has been severely restricted by the credit crunch.

My bill would encourage banks to increase lending to small and medium-size businesses for the purpose of job creation. To encourage such loans, it would give the Secretary of the Treasury

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the authority to enter into partial loan guarantees or loan participation agreements, and to issue securities backed by a pool of such loans. In each case, a bank or other private lender would also participate in the loan.

The program is designed to pay for itself. To fund the loans, the bill would authorize the issuance of bonds which would not be obligations of the United States. The Secretary would be authorized to charge fees to cover the costs of the program.

I am sure you have heard from a number of small business owners who would like to expand their current operations--expansions that would result in additional jobs and increased community investment. Yet many of those owners cannot get loans from conventional lending institutions. The program my bill establishes will help address this very serious problem.

I know my approach will work because it is modelled after a very successful program already in effect in my own state of New Jersey under the New Jersey Economic Development Authority.

Let me again thank you, Mr. Chairman, for agreeing to focus attention on the needs of our communities. I would be pleased to answer any questions you might have about my legislation.

Thank you very much.

JAMES A. TRAFICANT, JR
17TH DISTRICT OHIO

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STATEMENT OF THE HONORABLE JAMES A. TRAFICANT, JR.

SUBCOMMITTEE ON ECONOMIC GROWTH AND CREDIT FORMATION

JUNE 22, 1994

Mr. Chairman and members of the committee, I thank you for the opportunity to testify on behalf of H.R. 2191, the "Economic Development Loan Assistance Demonstration Program." I would like to speak to you today about the important role this program can play in revitalizing our nation's most needy areas.

I reintroduced H.R. 2191 to provide an incentive for businesses and non-profit organizations to invest in America's economically depressed communities. Specifically, the bill authorizes the Secretary of Housing and Urban Development (HUD) to make grants to bank Community Development Corporations (CDC's) that have targeted Federal enterprise zones for revitalization. The CDC's are then authorized to use the grant monies to buy down interest rates on loans to businesses and non-profit organizations that engage in economic redevelopment activities in the enterprise zone. The new rate cannot exceed 60 percent of the market rate of interest on the loan.

Although no Federal enterprise zones currently exist, the authority to establish 71 of them has been granted to Secretary Cisneros by the Housing and Community Development Act of 1992. Mike Espy, the Secretary of Agriculture, is authorized to select another 33. Later this year, Secretary Cisneros is expected to make his selections. When he does so, CDC's who target these zones will be eligible for the grants made possible through H.R. 2191.

I understand that money for new programs is scarce. I also understand the need to "test market" new ideas before diverting precious resources to fund them. This is why my legislation specifies that the program be established in only five federal enterprise zones. It is also the reason why H.R. 2191 requires a review of the entire program in a report to Congress within one year of its enactment. The report will enable Congress to determine the cost-effectiveness of reauthorizing monies for the program. As H.R. 2191 is currently written, the program is authorized from fiscal year 1994 to fiscal year 1996 at a level of approximately $33 million each year.

Under the bill, economic development activities are defined as the construction and rehabilitation of housing, downtown and neighborhood commercial revitalization, industrial development and redevelopment, small and minority business assistance, neighborhood marketing, training and technical assistance, research and planning for non-profit development groups and other activities that create permanent private sector jobs.

Because of their continued involvement in the community, I believe it is best to work with CDC's to finance these activities. CDC's are established by national banks or bank

holding companies and are regulated by either the Federal Reserve or the U.S. Treasury, depending on the particular corporation. The CDC's offer incentives for banks to participate in local community development projects. In exchange, bank regulatory agencies allow CDC's more flexibility with their investments. Under this setup, the federal government benefits from private sector organizations investing in their local communities, while CDC's benefit from higher yield investments, such as real estate and more chancy businesses.

As you and I both know, Mr. Chairman, it is essential that the private sector invest in its community. The Federal government cannot do it alone. This is why I believe H.R. 2191 is especially significant and has great merit. In the past, I have had moderate success with passing comparable programs. During the 101st Congress, I offered similar legislation as an amendment to the Cranston-Gonzalez National Affordable Housing Act (Public Law 101-625) when it was under consideration on the House floor. Although I was successful at attaching the measure, it was stripped during conference. More recently, I was able to attach a provision to the Economic Development Administration and Appalachian Regional Commission reauthorization bill that allowed the EDA to buy down interest loans on private economic development loans.

Despite this success, much more is needed to stem the tide of hopelessness in our communities. H.R. 2191 is important because it merges two existing community development tools, CDC's and enterprise zones. Both have had limited success on their own on the local and state level, but with a jump start from this federal demonstration program, we can combine them and incentivize investment.

Since 1977, my community has been devastated by an exodus of 55,000 manufacturing jobs. Unemployment in Youngstown, Ohio is twice that of the national average. I have seen first-hand the hopelessness of a community crumbling around its citizens. As representatives of Americans like these, it is our duty to help them help themselves, to lend a hand so that they can return their communities to the thriving, healthy environment it once was.

We can begin this process, Mr. Chairman, with your help. It is not important to me that the language of H.R. 2191 is kept exactly as it is written. I welcome any changes or modifications you or any member of the committee may want to offer. I just want to see this program given a fair chance. It can work.

Once again, I thank you, Mr. Chairman, and members of the committee for the opportunity to testify. I am willing and ready to work with you on this important measure. I would be more than happy to address any concerns or questions that you or members of the committee may have at this time.

U. S. DEPARTMENT OF COMMERCE
ECONOMIC DEVELOPMENT ADMINISTRATION
TESTIMONY OF

WILLIAM W. GINSBERG

ASSISTANT SECRETARY FOR ECONOMIC DEVELOPMENT

U.S HOUSE OF REPRESENTATIVES
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
SUBCOMMITTEE ON ECONOMIC GROWTH AND CREDIT FORMATION

CHAIRMAN KANJORSKI, CONGRESSMAN RIDGE, CONGRESSMAN KLEIN, CONGRESSMAN TRAFICANT, OTHER DISTINGUISHED MEMBERS, LADIES AND GENTLEMAN: I AM HONORED TO APPEAR BEFORE THE SUBCOMMITTEE ON ECONOMIC GROWTH AND CREDIT FORMATION TODAY TO DISCUSS THE ECONOMIC DEVELOPMENT ADMINISTRATION AND ITS EFFORTS TO ASSIST IN LOCAL ECONOMIC DEVELOPMENT THROUGH THE USE OF INNOVATIVE FINANCING TOOLS SUCH AS GUARANTEED LOAN PROGRAMS.

I COMMEND YOU FOR THE TIMELINESS OF THIS HEARING, MR. CHAIRMAN. THE CHALLENGES FACING ECONOMICALLY DISTRESSED AREAS AROUND THE UNITED STATES TODAY ARE VASTLY DIFFERENT THAN THEY WERE JUST A FEW SHORT YEARS AGO. WITH NEW CHALLENGES COMES THE NEED FOR NEW APPROACHES AT THE LOCAL, STATE AND FEDERAL LEVELS TO GOVERNMENT'S ROLE IN SUPPORTING PRIVATE SECTOR ECONOMIC DEVELOPMENT. AS WE RETHINK THE ROLE OF THE ECONOMIC DEVELOPMENT ADMINISTRATION AND THE

FEDERAL GOVERNMENT AS A WHOLE IN ECONOMIC DEVELOPMENT ACTIVITIES, WE ARE EXPLORING THE TOOLS WHICH WILL BE NEEDED TO ASSIST COMMUNITIES THAT ARE CURRENTLY OUTSIDE THE MAINSTREAM OF ECONOMIC GROWTH TO BUILD ECONOMIES THAT WILL BE ABLE TO PROVIDE AN ADEQUATE AND IMPROVING STANDARD OF LIVING FOR THEIR POPULATIONS IN THE FUTURE. I AM THUS PLEASED AND HONORED TO JOIN YOU TODAY TO DISCUSS EXPANDING THE TOOLS AVAILABLE TO ASSIST ECONOMIC DEVELOPMENT.

IN MANY COMMUNITIES IN ALL REGIONS OF THIS COUNTRY, THE BASIC ECONOMIC DEVELOPMENT CHALLENGE BEING FACED TODAY IS THE CHALLENGE OF THE COMPETITIVENESS OF THE EXISTING AND THE EMERGING LOCAL INDUSTRIAL BASE. AS THE AMERICAN ECONOMY FACES MORE AND MORE DIFFICULT GLOBAL COMPETITION, SO TOO DO COMPANIES AND INDUSTRIES ACROSS THE COUNTRY, AS WELL AS THE COMMUNITIES WHICH DEPEND UPON THEM. MAJOR CHANGES IN GOVERNMENTAL POLICIES, RANGING FROM ENVIRONMENTAL REGULATION TO DEFENSE SPENDING, ARE RESHAPING THE COMPETITIVE UNIVERSE IN WHICH SO MANY IMPORTANT INDUSTRIES EXIST, AND MAGNIFYING THE COMPETITIVE CHALLENGES FACED BY THESE INDUSTRIES AND THEIR COMMUNITIES. THE MARKET FORCES THAT ARE RESHAPING THE INDUSTRIAL WORLD ARE SIMULTANEOUSLY CREATING OPPORTUNITIES FOR NEW AND EMERGING COMPANIES AND INDUSTRIES.

AT THE COMMUNITY LEVEL, FUTURE PROSPERITY IS INCREASINGLY A FUNCTION OF THE EFFECTIVENESS OF GOVERNMENT AND INDUSTRY WORKING TOGETHER TO MEET THESE COMPETITIVE CHALLENGES AND TO TAKE ADVANTAGE OF THESE OPPORTUNITIES. AT THE FEDERAL LEVEL AS WELL, ECONOMIC

DEVELOPMENT POLICY MUST BE DESIGNED TO MEET THESE COMPETITIVE CHALLENGES AND OPPORTUNITIES. THE CLINTON ADMINISTRATION, IS THROUGH THE DEPARTMENT OF COMMERCE, UNDER THE LEADERSHIP OF SECRETARY BROWN, IS HELPING AMERICAN INDUSTRY TO MEET ITS COMPETITIVE CHALLENGES AND TO SEIZE ITS MARKET OPPORTUNITIES. THIS IS HAPPENING THROUGH A DRAMATIC INCREASE IN FEDERAL INVESTMENT IN CIVILIAN TECHNOLOGY AND IN THE FEDERAL SUPPORT FOR THE EXPORT ACTIVITIES FOR GLOBALLY COMPETITIVE U.S. FIRMS. THE DEPARTMENT OF COMMERCE, THROUGH EDA, IS SIMILARLY COMMITTED TO ASSISTING COMMUNITIES IN MEETING THE ECONOMIC DEVELOPMENT CHALLENGES OF TODAY AND TOMORROW.

THE HOUSE OF REPRESENTATIVES IN PASSING H.R. 2442 HAS ACTED TO ENSURE THAT DISTRESSED COMMUNITIES CAN TAKE ADVANTAGE OF A RE-AUTHORIZED EDA TO DEVELOP PROJECTS THAT WILL LEAD TO LONG-TERM PRIVATE SECTOR JOB CREATION. AT EDA, WE ARE RE-DIRECTING OUR PROGRAMS AND THE TOOLS WHICH WE USE WITH THE OBJECTIVE OF ENSURING THAT ECONOMICALLY DISTRESSED AREAS AND REGIONS OF THE UNITED STATES BENEFIT FROM THE NEW FEDERAL COMMITTMENT TO PROMOTE AMERICA'S GLOBALLY COMPETITIVE, TECHNOLOGY-BASED, EXPORT-ORIENTED INDUSTRIES. SINCE THE CREATION OF EDA UNDER THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1965, EDA HAS TARGETED ITS RESOURCES TO COMMUNITIES SUFFERING HIGH LEVELS OF ECONOMIC DISTRESS. THIS MUST BE NO LESS THE CASE TODAY; AS THE FEDERAL GOVERNMENT SEEKS NEW WAYS TO ASSIST U.S. INDUSTRY TO REMAIN GLOBALLY COMPETITIVE, EDA MUST USE NEW TOOLS TO ASSIST THOSE COMMUNITIES WHICH ARE OUTSIDE THE

MAINSTREAM OF ECONOMIC GROWTH OR WHICH ARE IN DANGER OF FALLING OUT OF THAT MAINSTREAM, TO RETAIN, CREATE AND GROW A COMPETITIVE ECONOMIC BASE FOR THE FUTURE.

EDA OPERATES AT THE LOCAL LEVEL. EDA ENSURES LOCAL COMMUNITY OWNERSHIP IN ECONOMIC DEVELOPMENT PROJECTS WHICH IT FUNDS. EDA, OPERATING IN CONJUNCTION WITH THE COMMERCE DEPARTMENT'S TRADE PROMOTION AND TECHNOLOGY DEVELOPMENT ACTIVITIES CAN ENHANCE BUSINESS FORMATION AND EXPANSION IN DISTRESSED COMMUNITIES.

WHAT IS NEEDED IN ECONOMICALLY DISTRESSED COMMUNITIES IN ORDER FOR THIS TO HAPPEN ARE BOTH (i) FINANCIAL INDUCEMENTS FOR THE GROWING, GLOBALLY COMPETITIVE INDUSTRIAL SECTORS TO INVEST IN OUR DISTRESSED COMMUNITIES AND (ii) INSTITUTIONAL LINKAGES BETWEEN THE COMMUNITY LEADERSHIP AND THE BUSINESS LEADERSHIP WHOSE COMPANIES CAN FORM THE ECONOMIC BASE OF THE FUTURE. ANY NEW ECONOMIC DEVELOPMENT TOOLS FOR EDA SHOULD PROVIDE ASSISTANCE IN MEETING THESE TWO NEEDS.

THE HISTORY OF EDA IS INSTRUCTIVE IN THIS REGARD. FOR ALMOST 20 YEARS, EDA THROUGH ITS TITLE IX PROGRAM, HAS PROVIDED GRANT FUNDING TO NOT-FOR-PROFIT AND PUBLIC INTERMEDIARIES IN ECONOMICALLY DISTRESSED COMMUNITIES ACROSS THIS COUNTRY TO ESTABLISH APPROXIMATELY 420 REVOLVING LOANS FUND. A TOTAL INVESTMENT OF APPROXIMATELY $350 MILLION HAS LEVERAGED AN ESTIMATED PRIVATE INVESTMENT IN EXCESS OF $1 BILLION AND CREATED AN ESTIMATED 100,000 OR MORE JOBS. THESE REVOLVING LOAN FUNDS HAVE OPERATED AT THE

LOCAL LEVEL TO PROVIDE FLEXIBLE, SUBSIDIZED FINANCING TO BUSINESSES WHICH REPRESENT ECONOMIC DEVELOPMENT PRIORITIES FOR LOCAL COMMUNITY LEADERSHIP. OUR STRONGEST REVOLVING LOAN FUNDS HAVE BUILT LINKAGES BETWEEN COMMUNITY LEADERSHIP AND BUSINESS LEADERSHIP IN THESE COMMUNITIES WHICH HAVE STABILIZED THE ECONOMIC BASE AND WHICH HAVE HELPED TO PREPARE THESE COMMUNITIES TO MEET THE ECONOMIC CHALLENGES OF THE FUTURE. IN GENERAL, HOWEVER, THE REVOLVING LOAN FUNDS NEED TO BE MORE CLOSELY TIED TO NATIONAL PRIORITIES, AND HAVE SUFFERED FROM INSUFFICIENT FUNDING, LACK OF FLEXIBILITY OF AVAILABLE FINANCIAL INSTRUMENTS AND INSUFFICIENT LIQUIDITY OF THEIR DEBT INSTRUMENTS. IN THIS ADMINISTRATION, WE PROPOSE TO ADDRESS THESE ISSUES, BY LINKING THE RLF STRUCTURE MORE INTO NATIONAL PRIORITIES, INCREASING FUNDING, PROVIDING MORE FLEXIBILITY AND ENHANCING THE LIQUIDITY OF THE DEBT INSTRUMENTS HELD BY THE RLFS.

SEVERAL SPECIFIC NEW TOOLS ARE PROPOSED FOR EDA IN DRAFT SUBCOMMITTEE LEGISLATION WHICH WE HAVE HAD THE OPPORTUNITY TO REVIEW. THIS DRAFT SUBCOMMITTEE LEGISLATION IS SPECIFICALLY INTENDED TO FOSTER ECONOMIC GROWTH AND TO CREATE NEW EMPLOYMENT OPPORTUNITIES IN COMMUNITIES FACING ECONOMIC DISTRESS, AND EACH PROPOSED DEMONSTRATION PROGRAM IS TARGETED TO COMMUNITIES FACING LONG-TERM ECONOMIC DETERIORATION OR OTHERWISE EXPERIENCING PARTICULAR ECONOMIC ADJUSTMENT PROBLEMS. THE PROPOSED TOOLS WHICH WOULD BE AVAILABLE TO EDA INCLUDE LOAN GUARANTEES AND EQUITY FINANCING INSTRUMENTS.

IN ORDER TO INCREASE FINANCING AND FACILITATE LIQUIDITY OF RLF DEBT INSTRUMENTS, WE WILL NEED LOAN GUARANTEE AUTHORITY. LOAN GUARANTEES FOR ECONOMIC DEVELOPMENT ACTIVITIES IS A HIGH PRIORITY OF THE CLINTON ADMINISTRATION. THE ADMINISTRATION HAS STRONGLY SUPPORTED LEGISLATION EMANATING FROM THIS SUBCOMMITTEE IN CONNECTION WITH EDA'S REAUTHORIZATION WHICH WOULD PROVIDE EDA WITH THE AUTHORITY TO GUARANTEE ECONOMIC DEVELOPMENT LOANS. IN ADDITION, THE PRESIDENT'S PENDING BUDGET REQUEST TO CONGRESS FOR FY 1995 REQUESTS $50 MILLION IN LOAN GUARANTEE AUTHORITY.

ECONOMIC DEVELOPMENT LOAN GUARANTEES WOULD SERVE A NUMBER OF IMPORTANT ADMINISTRATION OBJECTIVES. BY LEVERAGING PRIVATE INVESTMENT MANY TIMES THE AMOUNT OF THE FEDERAL FUNDS REQUIRED BY LAW TO BE HELD IN RESERVE FOR AN EDA LOAN GUARANTEE, THIS VEHICLE ENSURES A BETTER LEVERAGE FOR THE FEDERAL DOLLAR, EXPANDS BUSINESS ACTIVITY INVESTMENTS BY OUR INTERMEDIARIES AND ENHANCES PRIVATE LENDER PARTICIPATION IN COMMUNITY/ECONOMIC DEVELOPMENT.

AS AN ECONOMIC DEVELOPMENT TOOL, THE LOAN GUARANTEE PROGRAM WOULD BE A CATALYST TO ENCOURAGE AND ASSIST PRIVATE SECTOR INVESTMENT THAT WILL CREATE JOBS. EDA WOULD PROVIDE ASSISTANCE TO FINANCE EXISTING, EMERGING OR EXPANDING PRIVATE FIRMS WHICH HAVE BEEN IDENTIFIED AS LOCAL PRIORITIES UNDER THE LOCAL ECONOMIC DEVELOPMENT STRATEGY. EDA LOAN GUARANTEES WOULD ENHANCE THE ABILITY OF THESE FIRMS TO OBTAIN THE INVESTMENT CAPITAL NECESSARY TO REMAIN OR TO BECOME MORE COMPETITIVE IN A GLOBAL ECONOMY, WHETHER STRUCTURED TO

SUPPORT INDIVIDUAL PRIVATE SECTOR LOANS OR TO RECAPITALIZE EDA'S EXISTING NETWORK OF REVOLVING LOAN FUNDS. IN EITHER CASE, THE LOAN GUARANTEE WOULD BECOME A FLEXIBLE FINANCING TOOL THAT WOULD BE USED IN RISK SHARING ARRANGEMENTS TO ENHANCE COMMUNITY ECONOMIC PRIORITIES THAT RESULT IN LONG-TERM HIGH GROWTH JOB OPPORTUNITIES IN DISTRESSED AREAS.

EDA WILL USE LOAN GUARANTEES AFTER A DETERMINATION THAT THERE IS THE LIKELIHOOD OF JOB CREATION OR JOB RETENTION IN DISTRESSED AREAS. AN EDA LOAN GUARANTEE PROGRAM WOULD OPERATE IN CONJUNCTION WITH LOCAL COMMUNITY ECONOMIC DEVELOPMENT ENTITIES. INDIVIDUAL LOAN GUARANTEE DECISIONS WOULD BE MADE IN THE CONTEXT OF PROMOTING JOB CREATION, JOB RETENTION, ECONOMIC DIVERSIFICATION AND THE BUILDING OF A NEW ECONOMIC BASE FOR COMMUNITIES OUTSIDE THE MAINSTREAM OF ECONOMIC GROWTH, RATHER THAN SOLELY FROM THE PERSPECTIVE OF INDIVIDUAL CREDIT JUDGMENTS. THIS TYPE OF PROGRAM WOULD BE USED TO SUPPORT BUSINESS INVESTMENT IN HIGH GROWTH INDUSTRIES AND IN OTHER ACTIVITIES CENTRAL TO THE FUTURE ECONOMIC BASE OF DISTRESSED RURAL AND URBAN COMMUNITIES. EDA WOULD ENSURE THAT ITS ACTIVITIES WOULD NOT DUPLICATE THOSE OF OTHER FEDERAL PROGRAMS.

BECAUSE EDA HAS A FLEXIBLE ARRAY OF EXISTING ECONOMIC DEVELOPMENT TOOLS AT ITS DISPOSAL, AN EDA LOAN GUARANTEE DEMONSTRATION PROGRAM WOULD MAKE DEBT AVAILABLE TO BUSINESSES IN CONJUNCTION WITH OTHER BELOW MARKET FINANCING SUCH AS IS AVAILABLE UNDER EDA-FUNDED

REVOLVING LOAN FUNDS. SPECIFIC FUNDING PACKAGES COULD THUS BE TAILORED BY LOCAL INTERMEDIARIES TO MEET THE NEEDS OF PARTICULAR BORROWERS, WHILE PROVIDING THE LEVERAGE NEEDED TO GET THE GREATEST ECONOMIC DEVELOPMENT IMPACT FROM LIMITED EDA GRANT FUNDS. EDA WOULD UNDERTAKE, UNDER A GUARANTEED LOAN DEMONSTRATION PROGRAM, TO SHOW HOW EFFECTIVELY THIS WOULD BE DONE. BY TAILORING BELOW-MARKET FINANCING PACKAGES TO MEET THE SPECIFIC NEEDS OF BORROWERS, EDA'S INTERMEDIARIES WOULD ALSO MAXIMIZE THE LIKELIHOOD OF A BORROWER'S ULTIMATE SUCCESS IN MEETING ITS FINANCIAL OBLIGATIONS. ONCE A SUCCESSFUL LOAN GUARANTEE RECORD WAS ESTABLISHED UNDER THE PROPOSED DEMONSTRATION PROGRAM, EDA WOULD HOPE TO ACHIEVE A SUBSIDY RATE FOR LOAN GUARANTEES SIMILAR TO THAT ESTABLISHED FOR OTHER EXISTING FEDERAL LOAN GUARANTEE PROGRAMS.

WITH LEGISLATIVE PROVISIONS SUCH AS THOSE CONTAINED IN H.R. 2442 AND THE DRAFT SUBCOMMITTEE LEGISLATION, EDA COULD ALSO USE LOAN GUARANTEES TO RECAPITALIZE EDA'S EXISTING LOCAL REVOLVING LOAN FUNDS. SUCH AUTHORITY COULD HAVE PARTICULAR PROMISE AS AN ECONOMIC DEVELOPMENT TOOL. IN DOING SO UNDER A DEMONSTRATION PROGRAM, EDA COULD SELECT FOR RECAPITALIZATION THOSE RLFS WITH THE STRONGEST TRACK RECORDS IN MEETING THE NEEDS OF AMERICA'S DISTRESSED RURAL AND URBAN AREAS.

A NEW PROGRAM STRUCTURED IN THIS WAY WOULD BE FUNDAMENTALLY DIFFERENT FROM TROUBLESOME EDA LOAN GUARANTEES OF AN EARLIER ERA. UNLIKE THE STEEL INDUSTRY LOAN GUARANTEES OF THE 1970'S, WHICH WERE

A WELL-INTENTIONED EFFORT TO SUPPORT A FAILING INDUSTRY, LOAN GUARANTEES TODAY WOULD BE UTILIZED TO SUPPORT THE COMPETITIVE GROWING INDUSTRIES OF THE FUTURE. EDA LOAN GUARANTEES WOULD BE USED TO BRING HIGH GROWTH BUSINESS ACTIVITY INTO DISTRESSED COMMUNITIES, RATHER THAN BEING USED TO TRY TO SALVAGE DECLINING INDUSTRIES IN DISTRESSED COMMUNITIES.

EDA'S REVOLVING LOAN FUNDS WILL PROVIDE THE NECESSARY CAPITAL TO SPUR BUSINESS DEVELOPMENT AND EXPANSION WITH AN EXPLICIT LOCATION AND JOB CREATION FOCUS. WHEREAS VENTURE CAPITALISTS ARE FOCUSED ON PROVIDING CAPITAL WHERE THERE IS THE GREATEST LIKELIHOOD OF A HIGH RATE OF RETURN ON INVESTMENT, EDA IS FOCUSED ON PROVIDING CAPITAL WHERE THERE IS THE GREATEST OPPORTUNITY THAT THE BUSINESSES WILL BECOME ANCHORS IN DISTRESSED COMMUNITIES AND PROVIDE EMPLOYMENT OPPORTUNITIES AND AN ECONOMIC BASE FOR THE FUTURE. EDA'S STRUCTURE IS DESIGNED TO MAKE INVESTMENT DECISIONS THAT ARE BOTH FINANCIALLY SOUND AND ARE LIKELY TO LEAD TO PERMANENT JOB CREATION AND HELP REVITALIZE A STRUGGLING COMMUNITY.

FEDERAL LOAN GUARANTEES HAVE HISTORICALLY PLAYED A VERY IMPORTANT ROLE IN ACHIEVING IMPORTANT PUBLIC POLICY GOALS THROUGH PROVIDING ACCESS TO THE CREDIT MARKETS. JUST AS MODERATE-INCOME HOUSING PRODUCTION AND STUDENT LOAN PROGRAMS WERE FINANCED THROUGH THE AVAILABILITY OF SECURED, FEDERALLY-GUARANTEED INSTRUMENTS, SO TOO CAN THE SUPPLY OF CAPITAL TO LOCAL, COMMUNITY-BASED INTERMEDIARIES DOING THE TRUE WORK OF ECONOMIC DEVELOPMENT IN THIS ERA OF GLOBAL

ECONOMIC COMPETITION BE SIGNIFICANTLY EXPANDED THROUGH AN EDA LOAN GUARANTEE PROGRAM.

AS PREVIOUSLY STATED, ANY EFFECTIVE SET OF NEW PROGRAMS AT EDA WHICH SEEKS TO PROMOTE THE CREATION, RETENTION AND EXPANSION OF A GLOBALLY COMPETITIVE FUTURE ECONOMIC BASE FOR DISTRESSED COMMUNITIES IN THE UNITED STATES MUST ADDRESS BOTH THE NEED FOR SUBSIDIZED FINANCING TO INDUCE PRIVATE SECTOR INVESTMENTS AND THE NEED TO CREATE THE INSTITUTIONAL LINKS BETWEEN COMMUNITY LEADERSHIP AND BUSINESS LEADERSHIP WHICH ARE SO OFTEN LACKING IN COMMUNITIES OUTSIDE THE MAINSTREAM OF ECONOMIC GROWTH. THE EQUITY FINANCE PROGRAM PROPOSED FOR EDA IN THE DRAFT SUBCOMMITTEE LEGISLATION WE HAVE REVIEWED WOULD ALSO ACHIEVE THESE OBJECTIVES.

THE AVAILABILITY OF FUNDS TO COMMUNITY-BASED INTERMEDIARIES FOR EQUITY INVESTMENTS WOULD ENSURE THAT FUNDING WOULD BE TARGETED TO COMPANIES INVESTING IN DISTRESSED AREAS. ONLY BY GIVING THE COMMUNITY A REAL STAKE IN THE FUNDING FOR LOCAL BUSINESS DEVELOPMENT, AND BY DOING SO THROUGH LEGITIMATE AND EXPERIENCED INTERMEDIARIES CAPABLE OF MAKING INVESTMENT JUDGMENTS, CAN THE ULTIMATE GOAL OF BRINGING HIGH-GROWTH BUSINESS ACTIVITY TO AREAS OUTSIDE THE MAINSTREAM OF ECONOMIC GROWTH BE REALIZED. CARE WOULD BE TAKEN, IN CONSULTATION WITH SBA, TO ENSURE THAT THIS DEMONSTRATION PROGRAM AS IMPLEMENTED DOES NOT CONFLICT WITH OR OVERLAP SBA'S EXISTING PROGRAMS. TO ACCOMPLISH THIS, THE APPROACH FOR COORDINATION BETWEEN COMMERCE AND SBA TAKEN IN H.R. 820/S. 4,

THE "NATIONAL COMPETITIVENESS ACT," SHOULD BE EXPLORED. THERE MAY BE OTHER MODELS THAT SHOULD ALSO BE CONSIDERED. WE WOULD LIKE AN OPPORTUNITY TO WORK WITH YOU AND THE SBA TO DEVELOP THE BEST SOLUTION.

I UNDERSTAND THAT THE SUBCOMMITTEE IS ALSO CONSIDERING TWO OTHER BILLS TODAY, H.R. 3853 AND H.R. 2191, WHICH WOULD AUTHORIZE NEW PROGRAMS IN THE DEPARTMENTS OF THE TREASURY AND HOUSING AND URBAN DEVELOPMENT, RESPECTIVELY, TO SUPPORT ECONOMIC DEVELOPMENT FINANCING. WE DEFER TO TREASURY AND HUD TO PROVIDE COMMENTS ON THESE TWO BILLS.

MR. CHAIRMAN, I GREATLY APPRECIATE YOUR INVITATION TO TESTIFY TODAY AND I WILL BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE. THANK YOU.

GENERAL COUNSEL OF THE
UNITED STATES DEPARTMENT OF COMMERCE
Washington, D.C. 20230

FEB 2 1994

Guaranteed Loan Program. Amend redesignated section 603 by amending subsection (d) follows:

"(d) To the extent the Secretary deems it appropriate to carry out the economic adjustment purposes of this title, the Secretary is authorized to guarantee loans made to private borrowers by private lending institutions, community development financial institutions, and other lenders as the Secretary considers appropriate.

"(1) Activities for which loans may be guaranteed under this title include the development of land and facilities (including machinery and equipment) for industrial or commercial usage (such as the construction of new buildings and the rehabilitation of abandoned or unoccupied buildings, and alterations, conversion, or enlargement of existing buildings), or for the provision of working capital.

"(2) The Secretary may make such guarantees upon application of the lenders and upon such terms and conditions as the Secretary may prescribe, except that no such guarantee shall at any time exceed 90 percent of the amount of the outstanding unpaid balance of such loans. Such guarantees shall be conclusive evidence that the guarantee has been properly obtained, that the underlying loan qualifies for such guarantee, and that, but for fraud or material misrepresentation by the holder, such guarantees will be presumed to be valid, legal, and enforceable. Such guarantees shall have the full faith and credit of the United States Government. No guarantee will be provided unless the lender is responsible and makes adequate provision for servicing the loan on reasonable terms and for protecting the financial interest of the United States. No loan may be guaranteed if the income from such loan is excluded from gross income for the purposes of Chapter 1 of the Internal Revenue Code of 1986, as amended, or if the guarantee provides significant collateral or security, as determined by the Secretary, for other obligations the income from which is so excluded.

"(3) To the extent feasible, the Secretary shall conduct the guarantee program established under this subsection on a preferred lender basis and authorize lenders, in accordance with agreements entered into between the Secretary and such lenders, to take such actions on the Secretary's behalf as the Secretary deems appropriate, including, but not limited to, the determination of eligibility and credit worthiness and loan monitoring, collection and liquidation.".

Reason: This amendment provides EDA with the authority to institute a guaranteed loan program under this title by providing guarantees to public and private lenders. The President's budget for FY 1995 provides funding for this purpose to cover the cost of operating a loan guarantee program. The authority to conduct the program on a "preferred lender basis" is based on similar authority provided to the Small Business Administration under 15 U.S.C. § 634(b)(7).

Testimony of

Michael M. Crow
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Columbia University
New York, NY 10027

Before the

Subcommittee on Economic Growth
and Credit Formation

Committee on Banking, Finance
and Urban Affairs

U. S. House of Representatives

June 22, 1994

Mr. Chairman, my name is Michael Crow and I am the Vice Provost of Columbia University in the City of New York. I am here today to comment on the several actions before this committee regarding the possible establishment of loan incentive and interest rate buy-down programs as a means of enhancing economic development potential.

Over the last ten years I have been involved in a senior leadership position in the development of two major efforts to build technology-based economic development centers. The first of these efforts was in a semi-rural setting in central Iowa, and the second is presently being implemented in the Washington Heights section of Manhattan in New York City. In addition, I have served on the boards of four technology-based start-up companies since 1988.

In both the Iowa and New York City cases, our objectives as research intensive, not-for-profit institutions (Columbia and Iowa State University), have been to establish the technology development component necessary for the establishment of an economic environment conducive to the development of a "competitive community". By competitive community, I mean a community with the ability to both create and attract new business ventures and to do so in the technological realm of economic development. It is clear to almost all observers that technology-based economic development, the subsequent ability to attract new technology-oriented firms, and the ability to grow new firms from new technology is a critical success factor for any region interested in sustainable economic development in the future.

In both the Iowa and New York City cases the objective is to leverage large scale

federal science investments into local and regional economic development opportunities. It is in the context of these two projects and my experience in helping to establish four new technology-based firms that I offer the following general comments regarding H.R. 3853, H.R. 2191 and the proposal by the Secretary of Commerce regarding the establishment of guaranteed loan programs for enhancing economic development. These comments reflect a bias that it is incumbent upon the federal government to do all that it can to leverage the economic development potential of its multi-billion dollar annual investment in science and technology.

Financial Assistance

Financial assistance in the form of loan guarantees is an important factor in the growth of established small businesses and is a key to early success. Such assistance, however, is best delivered through a coordinated multi-dimensional program of financial, managerial, and facility assistance. In technology sectors, financial factors are important immediately, but bank type loans are not useful in the first 2-3 years of a start-up venture. Financial assistance which is critical includes:

- Direct grants to companies for facility renovation or, alternatively, provision by not-for-profit, non-governmental organizations (NGO's).

- Rent bridging assistance or provision for support by not-for-

profit NGO's.

- Establishment of an educated banking community in regions not typically involved in technology-oriented lending.

- Establishment of loan guarantees for not for profit intermediaries. In particular that technology-based start-ups need more than anything else an incubation and development environment.

- Technology based business start-ups need equipment and facilities that go beyond what it would be able to justify in any banking interaction.

- Banks need to have incentives to work with technology-based economic development communities. This calls for the development of new banking instruments such as establishing equity value for inventions and discoveries and supporting the development of the business support network.

Other Factors

Beyond financial incentives technology-based economic development can be encouraged by

the creation of comprehensive business incubation environments. Such environments, established and managed by NGO's, need to provide the following:

- No-cost or low-cost space to house emerging technology firms.

- Bridge financing for transition from idea to start-up and from start-up to developing company. Such bridge financing is often only required for short periods of time and could be administered by the local NGO.

- Comprehensive loans to NGO's for the building up of an environment conducive to technology development.

- Linked finance, research, job and other programs for economic development enhancement.

- A focused and comprehensive economic development program supported by one federal agency alone. The administrative overhead for an NGO or small company is too high to deal with several agencies at once.

SUMMARY

The proposed programs for Treasury, HUD and Commerce are important steps in the right direction. They are, however, extensions of traditional financial incentives to traditional lending and borrowing institutions. To enhance technology-based economic development, the government needs to insure that financial institutions can work through intermediaries involved in incubation and also help provide the critical environment for new technology-based economic development. Furthermore, it would be helpful if a single federal agency, such as EDA at Commerce, could be given lending assistance authority in the context of a broadly focused effort to establish zones of technology-based economic development.

Eva Klein & Associates

Statement of Eva Klein
President, Eva Klein & Associates

before the

Subcommittee on Economic Growth and Credit Formation
Committee on Banking, Finance, and Urban Affairs
U.S. House of Representatives

June 22, 1994

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Eva Klein & Associates

Statement of Eva Klein
President, Eva Klein & Associates
Subcommittee on Economic Growth and Credit Formation
Committee on Banking, Finance, and Urban Affairs
June 22, 1994

Mr. Chairman, members of the Subcommittee, thank you for the invitation to present comments today. My background is in university administration, management consulting, public finance investment banking, and, for the last four years, as an entrepreneur. My small business provides strategic and technical consulting to universities and to state and local governmental and economic development entities. My particular expertise is the roles of colleges and universities --as well as other not-for-profit institutions--in promoting economic and community development. My clients include urban universities that recently are beginning to find ways to apply their vast resources to support business formation and incubation, technology transfer, land development, and other forms of community development in distressed communities. I also have the pleasure of serving on the Boards of Directors of CUED (National Council for Urban Economic Development and of AURRP (Association of University Related Research Parks).

Today, I will briefly address aspects of H.R. 3853, H.R. 2191, the Clinton Administration proposal and the Subcommittee's own draft bill; however, with the Subcommittee's indulgence, I wish to place those specific comments in the broader context of what I believe, from ten years of observations, are the economic growth needs of communities and how these might be addressed more comprehensively in a broader federal economic development agenda.

Goals for the Federal Agenda/Role in Community/Regional Economic Growth

While new tools for business credit formation, as the current bills address them, are vital to the future of community economic growth, those financing tools would be far more effective if construed as part of a more comprehensive set of federal strategic goals for support and incentives. Such goals would be to:

- **Provide Comprehensive Support to Businesses.** Focus on the full range of developmental needs of new, growing, or restructuring mature businesses, including financing, technical assistance, access to new technology, labor force support and upgrading, and export assistance;

- **Link Business Support to Communities through Special Organizations.** Deliver that assistance through a system of qualified community-based organizations so that assistance programs are designed and directed by local or regional economic development strategies and priorities; and

- **Tap the Resources of Increasingly Willing Universities and Other Non-for-Profits.** Systematically encourage (even require) active participation of a community's/region's higher education/medical institutions, and special-purpose not-for-profits in the programs.

- **Coordination at the Federal Level.** Designate the Department of Commerce/Economic Development Administration as the agency locus of responsibility both for a number of new direct programs and for coordination with other agency programs.

I wish to describe what I have been observing as two profoundly positive changes occurring "out there" in communities which the federal economic development agenda should shape itself to reinforce.

THE CHANGING ECONOMIC DEVELOPMENT PROFESSION AND "AGENDA"

Until about two years ago, in my experience, the economic development organizations and the professionals who lead them focused most of their attention on matters of infrastructure, real estate development projects, and marketing to target businesses, usually with increasingly counterproductive bidding in the form of "incentives" which, in my view, amounted to a large game of chess--moving a given number of jobs from one place to another. In the last two years or so, economic development professionals have significantly broadened their view of their purposes. They have begun to realize that they must, instead, learn to mobilize and orchestrate development in a bewildering array of characteristics that together support economic well-being--including K-12 education, health, housing, crime, physical environment, and overall quality of community life. Essentially, we have learned that the creation, maintenance, growth, or attraction of businesses and sustaining a base of high-quality jobs is not simplistically a matter of more roads and flashier marketing brochures, but much more a function of creating **viable communities or regions in which quality of life is attractive and a business support infrastructure is in place.**

THE EMERGING ECONOMIC DEVELOPMENT MISSION OF HIGHER EDUCATION AND RELATED INSTITUTIONS

In their own world, higher education institutions have begun to realize that their historic roles in supporting society and the economy have been passive and taken for granted. Now, they are beginning to see that they must come down from the "ivory tower," roll up their sleeves programmatically, and become direct, proactive forces in community and regional economic development. From my work with clients, conference speaking engagements, and volunteer activities, I can personally attest to the fact that this structural change in how universities construe their missions is of very recent vintage. It is taking root first at the very prestigious, urban research universities and in the historically service-oriented land-grant public universities. But in an industry like higher education, which habitually plays "follow the leader," there is genuine opportunity for the federal government to capture the early momentum, channel it, and enlarge the players to include institutions located in most communities in America. Without wishing to overdramatize, I see signs that "sleeping giants," packed with land, financial, and above all, knowledge resources, are beginning to wake up. Your opportunity is to help them figure out what to do with the new motivation.

EXAMPLES OF HIGHER EDUCATION, TECHNOLOGY DEVELOPMENT, AND NOT-FOR-PROFIT ORGANIZATIONS AND THEIR ECONOMIC DEVELOPMENT INITIATIVES

From a large mental "catalog" of anecdotal information I've compiled in recent years, I'd like to cite a few examples, three of which come from visits I've made just in the last four business days!

1. **University-Sponsored Technology Parks, Incubators, Technology Transfer Programs, and Faculty Entrepreneurship/Company Formation.** As you may know, in the U.S., there are some 130 research park and technology incubator projects under various forms of development, most of which have a university sponsorship or relationships and many of which are partnerships involving local and state governments, community or regional economic development agencies, and the private sector. In many of these developments, which attempt to link land development with technology transfer, business formation, and entrepreneurship, federal funding of "core" or "anchor" R&D facilities have been a major beneficial part of the development strategy. One of the weak links in almost all of these projects is that, even when financing can be found for capital development, including for example EDA grants for infrastructure, there is almost always no easy way for the parks or incubators to find financing for the businesses in them. Therefore, with respect to the specific bills being discussed today, if these park and incubator entities, most of which are incorporated not-for-profits, had systematic access to financing and credit support programs for new and growing high technology businesses, they would be in an excellent position to direct those funds to businesses that represent future growth industries, specific community target industry priorities, and, importantly, businesses that already have had to pass through other technical, scientific, and financial screening, to determine their future viability and potential to create good new jobs.

   In addition to serving as "eligible intermediaries" for business financing programs, these projects also would benefit significantly from access to credit-enhanced pooled financing (of the type that Section 104 of the Subcommittee's draft bill seems to suggest) for their own capital construction. Typically, it is extremely difficult for parks and incubators to find financing, in the range of a few million dollars, to build or retrofit older buildings for use as "multi-tenant speculative" office/lab buildings. Yet, these are the very type of facilities that often are of dire importance to accommodate start-up and young growth high technology companies. In 1988 and 1989, when I worked in the Public Finance Department of Chemical Banking Corporation, I personally attempted to structure a "national" taxable bond pool for small construction loans to research parks and incubators and found, unsurprisingly, that the credit enhancement providers, especially the bond insurance firms, did not understand how to structure credit enhancement for what they perceived as high-risk, new venture, not-for-profit borrowers. This is a need that remains unmet and an opportunity for the federal government, through a provision such as Section 104 of the Subcommittee's draft bill, to accelerate the creation of low-cost space which, combined with technical assistance, can help the survival, success, and growth of a number of new technology businesses--all within the rich supporting scientific environment of the Nation's best research universities.

2. **The University of Pennsylvania - Center for Community Partnerships.** On Friday of last week, I had the pleasure of visiting the Director of this one-year old initiative that was created in the Office of the President of the University -- an indication of the level of importance it has. The University of Pennsylvania and its affiliated hospitals, together with University City Science Center, the Nation's oldest and most successful urban science/technology park, is the economic center of the vast economically distressed, minority community called "West Philadelphia." Although

for years, the University has worked informally to support and improve its surrounding community, it recently has determined that its efforts need more strategic focus, more funding, and higher priority. In effect, the University wants to "up the ante." Now, the new Center's goals are to build effective partnerships between Penn and the community, to internally coordinate and promote Penn's community service programs, and to design and implement major new strategic initiatives linking Penn to the community's economic and social growth and well-being. Out of "enlighted self-interest," the University construes this mandate quite broadly to include initiatives it will undertake in school reform, housing redevelopment, community development, direct business support (such as a "Buy West Philadelphia Program)," entrepreneurship development, and quality of community life initiatives.

Although not separately incorporated at present and although certainly not a financial/depository institution, this Center would be an excellent intermediary for a range of business financing tools--interest subsidies, guarantees, credit support, and equity vehicle programs--that collectively H.R. 3853, H.R. 2191, the Clinton Administration proposal, and the Subcommittee's draft bill all envision. It uniquely can accomplish the goal described above of targeting money to the kinds of businesses that would most benefit the local community because (1) it will be assessing the community needs and resources continually and (2) it is itself by far the major consumer of goods and services. The issue is to craft the program so that a University or a related corporation of the University can either serve as the "qualified intermediary" or provide the intake, referral, and screening roles for banks and community development corporations serving as qualified intermediaries.

3. **Campus Boulevard Corporation.** On the same day last week, I visited the Executive Director of this highly unique not-for-profit, created in 1981, as a consortium of universities, colleges, magnet high schools and medical institutions that form a large institutional "corridor" surrounded by four economically distressed older urban neighborhoods in Northwest Philadelphia. Unique because it was, in 1981, an idea ahead of its time, the CBC was established to promote neighborhood, commercial, and institutional revitalization in the Campus Boulevard community as well as to strengthen relationships among its member institutions. Again, enlightened self-interest is at play, because the educational and medical institutions' future depends directly on the viability of the neighborhood in which they are located. CBC initiatives have resulted in public and private commercial improvements, transit improvements, improved police coverage, establishment of a housing services program, rehabilitation of 740 housing units in 8 private apartment buildings, upgrading parks and recreation facilities, an anti-graffiti program, various improvements relating to clearing vacant properties, sanitation, landscaping, street clean-up, lighting, etc.

Now, at a crossroads for its strategic direction, the CBC wants to do more, bigger, and more visible economic development but feels it is precluded from funding sources because, although it can be the most effective local intermediary organization in Northwest Philadelphia, it is not technically a Community Development Corporation. Among its current plans are two big initiatves: (1) development of a $200,000 training program for local residents, including welfare recipients, specifically to train

them for entry-level, career-ladder positions in the educational and medical institutions themselves. The win-win benefit of this program is that neighborhood residents will have access to high-quality local employment and the institutions will have a supply of qualified labor force. Also, the CBC wants to find and buy a building in which to create an incubator which, similarly, would have the specific mission of identifying community residents who have the potential to develop businesses which specifically would become vendors of goods and services to the CBC member institutions. Again, a win-win proposition for promoting entrepreneurship and using the buying power of the institutions to support the new businesses. CBC's problem is that it has no obvious source of financing, either to acquire and renovate the incubator building or, more problematically, to fund the incubator support programs and provide first-stage financing to the new businesses it wants to create. Again, therefore, this organization is an example of how federal business finance programs could tie support to businesses to the specific identifiable economic development needs of a specific community. Again, the issue is how to create the possibility for a not-for-profit organiztion like CBC to be a "qualified intermediary."

4. **Biomedical Research Foundation of Northwest Louisiana.** Yesterday, I spent the day visiting with Board and staff of this not-for-profit in Shreveport, Louisiana. Founded in 1986, the Foundation's membership represents the business community leadership of the City of Shreveport and Cato Parish and its corporate mission is (1) to expand the scientific capacity of the Louisiana State University Medical Center in Shreveport; (2) to develop existing scientific resources through interaction with industry; (3) to increase the economic development of Northwest Louisiana; and (4) to provide a neutral forum to enhance health care on a regional basis. Already, the Foundation has taken advantage of a large federal grant to leverage significant amounts of state and private funds to build a 160,000 square foot state-of-the-art Biomedical Research Institute, which houses LSU Medical Center research labs, space for incubator companies, a Positron Emission Tomography (P.E.T.) facility, the Foundation's offices, and research accomplishments exhibition space. The Foundation now wants to develop a Strategic Business Plan for a technology/research park in Shreveport that would focus on biotechnology as well as selected other high technology, high-growth industries. It has enormous potential to use potential future federal appropriations to leverage state and private funds for additional development, can undertake related programs in focused job training, labor force renewal, technology transfer, and can provide Beta sites for applying new technologies to primary health care delivery in rural areas.

   Again, this is an example of an organization in an excellent position to leverage the resources of universities, colleges, local hospitals, and the business leadership community to focus the application of federal business financing programs for economic development. Again, it needs to become an "eligible intermediary" or have a strong role in directing the funds administered by a bank or CDC intermediary, in order to make the use of loans, guarantees, or interest rate subsidies most effective.

To summarize, here is one hopeful person's "wish list" for the federal government's "new directions in economic growth and development."

- Create a broad array of financing tools, including debt and equity alternatives, as the Subcommittee's draft bill, H.R. 3853, and H.R. 2191 seek to demonstrate.

- Define "economic development" broadly, to mirror the realities of what is really going on in America in communities and regions--that is, along with infrastructure and direct business financing, economic development means concerted courses of action to support communities in solving the problems they have that preclude them from being hospitable to business and economic activity. This means that material solutions to the problems of schools, distressed youth, housing, physical environment, community health, and business support infrastructure are all part of our "economic development agenda."

- Focus comprehensively on the needs of businesses, from pre-start-ups through mature businesses that need new technology and modernization and including financing, labor force/training programs, and technical assistance.

- Determine how to establish flexible but meaningful criteria to enlarge the notion of "intermediaries" to include higher education institutions and special-purpose not-for-profits that may be in the best possible position to connect business support to where the community most needs it.

- Broaden the historic infrastructure-oriented mission of the Economic Development Administration. If the federal government is to have an agency with this name, the reality of its programs and policies must be updated to reflect the realities of the coming 21st century, realities already taking shape at the state, regional, and local levels. Therefore, enlarge EDA's strategy and vision to be the federal government's primary agency for delivery and coordination of a broad array of federal programs and services that, together, support community and regional growth and revitalization. Assign to the EDA responsibility for interagency planning and coordination with HUD, Labor, Education, SBA, NIST, NSF, DOE, and the host of other entities that provide programs with economic development ramifications.

- Help universities accelerate their economic development impact, particularly in the case of research universities and technology-based economic development, by clarifying their mandate to do so, as this is an admittedly complex subject on which congressional messages have become "mixed."

Thank you very much for your time and the opportunity to present these views. I would be pleased to assist the Subcommittee's staff further and, of course, to answer any questions the Subcommittee members may have.

U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON ECONOMIC GROWTH & CREDIT FORMATION
OF THE
COMMITTEE ON BANKING, FINANCE & URBAN AFFAIRS
ONE HUNDRED THIRD CONGRESS

STATEMENT OF JOHN F. SEWELL
PRESIDENT OF HOUSING SERVICES OF AMERICA ON H.R. 2191

Cited as the "Economic Development Loan Assistance Demonstration Program Act of 1993"

Mr. Chairman and members of the Committee, thank you for the opportunity to testify on the *"Economic Development Loan Assistance Demonstration Program Act of 1993"*. I would like to speak today about the critical need to place a program to demonstrate the impact and effectiveness of economic development in enterprize zones through grants made available to community development corporations.

According to most social scientists, there is a tremendous need for government to provide communities with the necessary resources such as H.R. 2191 that will provide critically needed start-ups as a mechanism for economic development.

As I have worked in many communities throughout this country, I have learned through empowering communities we can begin to rebuild and stabilize these communities through economic development activities.

In fact, this demonstration program will go a long way in restoring the necessary fiber of self-sufficiency throughout the country which is found to be key in stabilizing communities.

Realizing that money for new programs is scarce, this legislation will stimulate economic growth in the economically depressed areas to be selected by the Secretary of HUD. For several years this legislation has surfaced to no avail, however, now is the time for you to come to the aid of your country and to provide assurances to all Americans.

I submit that this legislation will have far reaching effects on persons that would not otherwise be able to pick themselves up from sub-poverty circumstances and become viable and productive tax paying citizens of those communities to be served.

For these reasons I implore this Committee to assist those persons and communities to pick themselves up by their bootstraps and become productive citizens of those communities. Ladies and gentlemen, let us be responsible citizens and support the efforts brought forth in this legislation. Let us be responsible for placing a mechanism that will serve as a spring board out of poverty into main stream America.

Therefore, I solicit your assistance in this matter and encourage your support of this critical piece of legislation. I believe this legislation will go a long way and save the Government lots of money.

Respectfully submitted,

John F. Sewell
President
HOUSING SERVICES OF AMERICA

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June 18, 1994

The Honorable Paul Kanjorski, Chairman
Subcommittee on Economic Growth and Credit Formation
Room H 2-109
Ford House Office Building
Washington, D.C. 20510

Attn: Joel Yudken

Dear Chairman Kanjorski:

I appreciate the invitation to testify before your committee this Wednesday, June 20. Unfortunately, I cannot be there in person due to scheduling difficulties.

In discussion with Joel Yudken, Committee staff, I understand you are exploring more creative ways in which fast growing businesses can be supported through existing or new federal initiatives.

As I pointed out in my testimony of March 17 on H.R. 2442, the EDA Reauthorization Bill, there is an expanding awareness that growing businesses is the shortest route to a healthier local economy and increased employment. And what fast growing businesses need more than anything else is flexible capital, both from the debt and equity markets.

Though the Small Business Administration has done a good job in providing financing for small business, it has not been able to focus on the needs of fast growing technology-based or service oriented firms. Most SBA financing requires collateralization, a simple matter when you are buying a building or machinery. However, most new, fast growing businesses are not in the manufacturing sector as we once knew it. They are software firms and technology-based service firms.

They require early seed capital as they start, venture capital as they expand, and receivables financing as they grow in size and employment. None of these are currently available through federal programs without required collateral, second mortgages or personal guarantees. Most new, technology-based businesses have already tapped these avenues out to get to where they are ready to market their products. There is no more line left on the reel for them.

I believe that EDA, with its new mission to grow businesses, can provide at least one critical part of the financing puzzle. Under current legislation EDA has Title IX authority to capitalize Revolving Loan Funds (RLF) for distressed communities. Many of these funds have been formed over the past 20 years to help provide needed debt financing in areas hit with economic deterioration.

When I worked in public sector economic development in New Haven, CT in the early 1980's it became apparent that this city's manufacturing base was lost and unable to revitalize the urban economy. Instead, we who had the responsibility for restoring jobs to the city looked to Yale University and the Olin Corporation to create a nursery for new, fast growing companies in the Science Park, an 80 acre redevelopment in the center of New Haven. And a critical component of that incubator for new businesses was the adaptation of an EDA revolving loan fund into a seed capital equity fund.

This EDA fund, the Technology Innovation Fund, was formed to make equity investments in very early stage companies in New Haven. It encouraged a number of new companies to locate in the city and eventually generated hundreds of new jobs for New Haven.

But it did not meet EDA guidelines at the time. It took equity -- something which EDA had not been allowed to do up to that time -- and it invested capital without substantive collateralization. These two adjustments to an existing program enabled New Haven to become a center of entrepreneurship in Connecticut and to leverage a decaying industrial slum into one of the most studied urban developments in the country.

I would strongly recommend to your committee that current EDA programs, such as the RLF's, be modified through Congressional action to allow communities which have shown the ability to raise local seed capital to match local dollars with EDA funds. Here in Evanston, a locally raised $1,000,000 seed capital fund has lured a number of small, fast growing companies into our incubator and research park. Those companies would have remained scattered and possibly dormant without the leveraged equity investments of our fund.

I suggest that EDA be asked to change its guidelines for RLF's under certain circumstances, and allow them to be used as early stage seed capital funds. This change will not solve this nation's small business capital crisis by itself, but it will go a long way towards allowing locally distressed communities to lure fast growing companies to within their boundaries.

There are other ways in which existing EDA titles can be adjusted to help grow businesses where they are needed most, but the RLF's are the easiest tool to modify. I hope these comments help generate more creative thinking by your committee on how we can

create a new business infrastructure support program -- only instead of matching sewer and water costs, EDA would match locally raised equity financing for fast growing companies.

Sincerely,

Ronald C. Kysiak
Executive Director

103D CONGRESS
1ST SESSION

H. R. 2191

To authorize the Secretary of Housing and Urban Development to carry out a demonstration program to make grants to community development corporations for reducing interest rates on loans for economic development activities in 5 federally designated enterprise zones.

IN THE HOUSE OF REPRESENTATIVES

MAY 19, 1993

Mr. TRAFICANT (for himself, Mr. APPLEGATE, Mr. FRANK of Massachusetts, Mr. MCCLOSKEY, Mr. STRICKLAND, Mr. FILNER, and Mr. BLACKWELL) introduced the following bill; which was referred to the Committee on Banking, Finance and Urban Affairs

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A BILL

To authorize the Secretary of Housing and Urban Development to carry out a demonstration program to make grants to community development corporations for reducing interest rates on loans for economic development activities in 5 federally designated enterprise zones.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Economic Development Loan Assistance Demonstration Program Act of 1993".

SEC. 2. ESTABLISHMENT AND SCOPE OF DEMONSTRATION PROGRAM.

(a) ESTABLISHMENT.—The Secretary of Housing and Urban Development shall carry out a program to demonstrate the effectiveness of encouraging economic development in enterprise zones by making grants to community development corporations for reducing interest rates on loans for economic development activities in the enterprise zones.

(b) SELECTION OF ENTERPRISE ZONES.—

(1) NUMBER.—The Secretary shall carry out the demonstration program under this Act with respect to 5 enterprise zones, which the Secretary shall select not later than the expiration of the 30-day period beginning on the date the termination of the period referred to in section 701(a)(4)(B) of the Housing and Community Development Act of 1987.

(2) DIVERSITY.—Of the enterprise zones selected under this subsection, not less than 2 shall be located in rural areas (as described in section 701(a)(2)(B) of the Housing and Community Development Act of 1987) and not less than 2 shall be located in metropolitan statistical areas (as designated by the Director of the Office of Management and Budget). In selecting the enterprise zones, the Secretary shall provide for national geographic diver-

sity among enterprise zones participating in the demonstration program.

SEC. 3. GRANTS FOR ECONOMIC DEVELOPMENT LOAN ASSISTANCE.

(a) AUTHORITY.—Under the demonstration program under this Act, the Secretary may make grants to any community development corporation sponsored by a bank or thrift institution, by a nonbank economic development corporation, or by residents of an enterprise zone selected under section 2(b).

(b) USE.—Each community development corporation receiving a grant under the demonstration program under this Act shall use the grant amounts to assist businesses and nonprofit organizations by reducing interest rates on loans for economic development activities carried out in an enterprise zone selected under section 2(b).

(c) OTHER REQUIREMENTS.—The Secretary shall require each community development corporation receiving a grant under the demonstration program under this Act to—

(1) use the grant amounts to reduce the interest rate on a loan described in subsection (b) by an amount not to exceed 60 percent of the market rate of interest on such loan; and

(2) take any actions necessary to inform businesses and nonprofit organizations of the availability of such loans, including holding informational meetings, making public announcements, and placing notices in newspapers and other publications.

SEC. 4. MONITORING.

The Secretary shall monitor the use of grants made under this Act and the costs of administering such grants.

SEC. 5. REPORTS AND STUDY.

(a) ANNUAL REPORT.—The Secretary shall submit to the Congress, not later than 1 year after the date that amounts to carry out this Act are first made available under appropriations Acts and for each year thereafter in which amounts are available to carry out the demonstration program, a report containing an evaluation of the effectiveness of grants made under the demonstration program.

(b) STUDY AND REPORT ON EXPANDED PROGRAM.—

(1) STUDY.—The Secretary shall conduct a study regarding the effects and costs of carrying out a long-term and expanded program of making grants for the purposes under this Act. The study shall determine the need for such grants and the amount of funds necessary to carry out an effective program of national scope.

(2) REPORT.—The Secretary shall submit to the Congress, not later than September 31, 1996, a report regarding the results of the study under paragraph (1) and any recommendations for carrying out a program as described in paragraph (1).

SEC. 6. DEFINITIONS.

For the purposes of this Act:

(1) ECONOMIC DEVELOPMENT ACTIVITIES.—The term "economic development activities" means the construction and rehabilitation of housing, downtown and neighborhood commercial revitalization, industrial development and redevelopment, small and minority business assistance, neighborhood marketing, training, and technical assistance, research and planning for nonprofit development groups, and other activities which create permanent private sector jobs.

(2) ENTERPRISE ZONE.—The term "enterprise zone" means an area that is designated as an enterprise zone under section 701 of the Housing and Community Development Act of 1987.

(3) SECRETARY.—The term "Secretary" means the Secretary of Housing and Urban Development.

SEC. 7. AUTHORIZATION OF APPROPRIATIONS.

There is authorized to be appropriated to carry out this Act in fiscal years 1994, 1995, and 1996 a total of $100,000,000.

SEC. 8. REGULATIONS.

The Secretary may issue any regulations necessary to carry out this Act.

Section-By-Section Analysis

H.R. 2191, Economic Development Loan Assistance Demonstration Program Act of 1993, Cong. Jim Traficant

(introduced: May 19, 1993)

Brief: **The bill authorizes the Secretary of Housing and Urban Development to carry out a demonstration program to make grants to community development corporations (CDCs) for reducing interest rates on loans for economic development activities in 5 federally designated enterprise zones.**

SEC. 1. SHORT TITLE

SEC. 2. ESTABLISHMENT AND SCOPE OF DEMONSTRATION PROGRAM

a) Establishes a program under the direction of the Secretary to make grants for the reduction of interest rates on loans to CDCs for economic development projects in the designated zones.

b) Selection of Enterprise Zones

1) The Secretary shall designate 5 zones no later than 30 days following the termination day of the period referred to in Sec.701(a)(4)(B) of the *Housing and Community Development Act of 1987*.

2) Not less than 2 zones will be in rural areas.
Not less than 2 zones will be in MSAs.
Selected zones must meet national geographical diversity standards.

SEC. 3. GRANTS FOR ECONOMIC DEVELOPMENT LOAN ASSISTANCE

a) Authority -- The Secretary can make grants to any CDC sponsored by a bank or thrift, a non-bank CDC, or by residents of a designated zone.

b) Each CDC receiving a grant shall use it to assist businesses and nonprofit organizations by reducing interest rates on loans for economic development activities carried out in a designated zone.

c) Other requirements -- The Secretary shall require:

1) that the grant be used to reduce loan interest rates by an amount not to exceed 60 percent of the market rate of interest on such loan.

2) that actions be taken to promote the availability of such loans, including holding informal meetings, public announcements, and print notices.

SEC.4. MONITORING -- The Secretary shall monitor these grants and the costs of making such grants.

SEC.5. REPORTS AND STUDY

a) Annual report -- The Secretary shall submit a report to Congress containing an evaluation of the effectiveness of grants made under this program. The first report will be submitted no later than 1 year following when funds are first made available for this program.

b) Study and report on expanded program --

1) The Secretary will conduct a study of the costs of carrying out a long-term and expanded program of this type, including an evaluation of need for these types of grants.

2) The Secretary will submit a report to Congress no later than September 31, 1996 in regard to the above.

SEC. 6. DEFINITIONS

1) Economic Development Activities -- The construction and rehabilitation of housing, downtown and neighborhood commercial revitalization, industrial development and redevelopment, shall and minority business assistance, neighborhood marketing, training, and technical assistance, research and planning for nonprofit development groups, and other activities which create permanent private sector jobs.

2) Enterprise Zone -- An area designated as such by sec. 701 of the *Housing and Community Development Act of 1987.*

3) Secretary -- The Secretary of Housing and Urban Development.

SEC. 7. AUTHORIZATION OF APPROPRIATIONS

A total of $100,000,000 is authorized to carry out this act in fiscal years 1994, 95, and 96.

SEC. 8. REGULATIONS

The Secretary may issue any regulations necessary to carry out this Act.

Cosponsors (original in bold): **Mr. Applegate, Mr. Frank of Mass., Mr. McCloskey, Mr. Strickland, Mr. Filner, Mr. Blackwell**, Mr. Parker, Ms. Clayton, Mr. Lewis of GA, Mr. Washington, Mr. Foglietta, and Mr. Lipinski

I

103D CONGRESS
2D SESSION

H. R. 3853

To stimulate private investment, economic development, and the creation of jobs in the private sector by authorizing the Secretary of the Treasury to participate in loans, and guarantee a portion of loans, made by banks and other qualified lenders for businesses with potential for expansion and growth and for other viable economic development projects, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 10, 1994

Mr. KLEIN (for himself, Mr. FRANK of Massachusetts, Mr. SCHUMER, and Mr. DEUTSCH) introduced the following bill; which was referred to the Committee on Banking, Finance and Urban Affairs

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A BILL

To stimulate private investment, economic development, and the creation of jobs in the private sector by authorizing the Secretary of the Treasury to participate in loans, and guarantee a portion of loans, made by banks and other qualified lenders for businesses with potential for expansion and growth and for other viable economic development projects, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Economic Revitalization Act of 1994".

SEC. 2. PARTICIPATION AND COOPERATION BETWEEN PUBLIC AND PRIVATE SECTORS TO STIMULATE ECONOMIC DEVELOPMENT.

(a) IN GENERAL.—Title 31, United States Code, is amended by redesignating subtitle VI as subtitle IX and by inserting after subtitle V the following new subtitle:

"Subtitle VI—Cooperation Between Public and Private Sectors

"CHAPTER 75—COOPERATIVE ECONOMIC GROWTH AND DEVELOPMENT FINANCING

"§ 7501. Definitions

"For purposes of this chapter—

"(1) PARTICIPATING FINANCIAL INSTITUTION.—The term 'participating financial institution' means any depository institution (as defined in section 19(b)(1)(A) of the Federal Reserve Act) or other lending institution—

"(A) which meets such criteria as the Secretary may establish for participating in any cooperative economic growth and development financing project established by the Secretary under this chapter; and

"(B) whose application to participate as a lender in any such project, subject to such conditions as the Secretary may prescribe, is approved by the Secretary.

"(2) QUALIFIED LOAN.—The term 'qualified loan' means a loan which—

"(A) is made to a business which—

"(i) is in good financial condition;

"(ii) has a strong potential for expansion and growth; and

"(iii) is experiencing difficulty in obtaining sufficient amounts of credit on terms which are economically viable for such business due to prevailing economic conditions or other circumstances unrelated to the financial condition of the business;

"(B) is made for purposes which the Secretary determines will—

"(i) produce a significant net increase in the number of jobs relative to the total amount of the loan; and

"(ii) stimulate economic growth in a region or community in which such business is located; and

"(C) meets such underwriting standards and other criteria as the Secretary determines to be appropriate.

"(3) SECRETARY.—The term 'Secretary' means the Secretary of the Treasury.

"§ 7502. Financial participation

"(a) LOAN PARTICIPATIONS AND GUARANTEES.—

"(1) IN GENERAL.—Subject to subsections (b) and (d), the Secretary may—

"(A) purchase a participation in any qualified loan made by a participating financial institution; and

"(B) guarantee the payment of interest on, and the repayment of principal of, a portion of any qualified loan made by a participating financial institution.

"(2) TERMS AND CONDITIONS.—The Secretary may establish such terms and conditions for a loan participation or loan guarantee under paragraph (1)

as the Secretary determines to be appropriate, including—

"(A) minimum and maximum limitations on the amount of any qualified loan which is eligible for any such participation or guarantee; and

"(B) in the case of a loan guarantee with respect to any qualified loan, a requirement that the participating financial institution which originated the loan maintain a prescribed amount of reserves with respect to the loan or retain a subordinated participating interest in the loan.

"(3) FEES.—The Secretary may impose a fee in such amount as the Secretary determines to be appropriate for any loan participation or loan guarantee made by the Secretary under this section to cover the costs incurred by the Secretary in carrying out this subsection.

"(b) MAXIMUM AMOUNT LIMITATIONS ON PARTICIPATIONS AND GUARANTEES.—

"(1) LOAN PARTICIPATIONS.—Except with respect to the purchase of loans in connection with the securitization of qualified loans in accordance with subsection (c), the amount of any loan participation

or other interest in any qualified loan acquired by the Secretary under this chapter may not exceed the amount which is equal to 70 percent of the total amount of the loan.

"(2) LOAN GUARANTEES.—The amount of any guarantee made by the Secretary under subsection (a)(2) with respect to any qualified loan may not exceed 50 percent of the amount which is equal to—

"(A) the total principal of the loan; minus

"(B) the amount of any participation in such loan which the Secretary has acquired.

"(c) SECURITIZATION OF QUALIFIED LOANS.—

"(1) IN GENERAL.—The Secretary may issue securities backed by a pool of qualified loans acquired by the Secretary for such purpose.

"(2) SECURITIES NOT BACKED BY FULL FAITH AND CREDIT OF THE UNITED STATES.—

"(A) IN GENERAL.—A security issued by the Secretary under paragraph (1) shall not be an obligation of the United States, or guaranteed in any respect by, the United States.

"(B) COORDINATION WITH LOAN GUARANTEES.—A loan guarantee provided by the Secretary with respect to any portion of a qualified loan shall cease to be effective at the time the

loan is acquired by the Secretary for inclusion in a pool of qualified loans under paragraph (1).

"(3) STANDARDS.—The Secretary shall establish standards governing the composition of a pool of qualified loans under paragraph (1), including standards requiring—

"(A) a broad geographical distribution of the businesses which received the loans which are in the pool;

"(B) a diversity in the types of businesses which received the loans and in the purposes for which the loans were made;

"(C) a wide variety in the amounts of principal of the qualified loans included in the pool; and

"(D) a large number of loans in the pool.

"(4) MAXIMUM SIZE OF LOAN INCLUDIBLE IN POOL.—In order to be included in a pool under paragraph (1), the total amount of principal of a qualified loan may not exceed an amount equal to 10 percent of the total amount of all loans in such pool.

"(5) AUTHORITY TO PURCHASE QUALIFIED LOANS FOR INCLUSION IN POOL.—Subject to sub-

section (d), the Secretary may purchase qualified loans for inclusion in a pool under paragraph (1).

"(d) ANNUAL LIMITATION ON AGGREGATE AMOUNT OF LOANS AND GUARANTEES.—

"(1) LOAN PARTICIPATIONS.—The aggregate amount of qualified loan participations acquired by the Secretary and the amount of qualified loans purchased by the Secretary for inclusion in a pool under subsection (c) shall not exceed $100,000 in any fiscal year.

"(2) LOAN GUARANTEES.—The aggregate amount of guarantees issued by the Secretary with respect to qualified loans shall not exceed $200,000 in any fiscal year.

"§ 7503. Financing

"(a) BOND AUTHORITY.—

"(1) IN GENERAL.—In order to obtain additional resources to carry out section 7503 at no expense to the Federal Government or the taxpayer, the Secretary may issue bonds in accordance with this section to obtain additional resources to carry out section 7503.

"(2) PRIVATE GUARANTEE.—The Secretary may not issue a bond under paragraph (1) unless (a) the issuance is fully guaranteed by a financial in-

stitution which has the highest credit rating of any financial institution in the United States by at least 1 unaffiliated, nationally recognized statistical rating organization or (b) the loan obligation is insured or underwritten by a letter of credit or credit insurance issued by a financial institution which has the highest credit rating of any financial institution in the United States by at least 1 unaffiliated, nationally statistical rating organization.

"(3) TERMS AND CONDITIONS IMPOSED BY UNDERWRITER.—Except to the extent otherwise provided in this chapter, the Secretary shall comply with any term or condition imposed by an underwriter in connection with the issuance of any bond under paragraph (1).

"(4) SECURITIES NOT BACKED BY FULL FAITH AND CREDIT OF THE UNITED STATES.—A bond issued by the Secretary under paragraph (1) shall not be an obligation of the United States, or guaranteed in any respect by, the United States.

"§ 7504. Participating financial institutions

"(a) STANDARDS AND APPLICATION PROCESS.—The Secretary shall establish standards and application procedures for the designation of participating financial institutions for purposes of this chapter.

"(b) ADVERTISING AND PUBLIC NOTICE.—The Secretary shall provide advertising and public notices, and take such other actions as the Secretary determines to be appropriate, to publicize—

"(1) the existence of the cooperative financial participation projects established under this chapter; and

"(2) the names and addresses of the participating financial institutions involved in such cooperative projects.".

(b) CLERICAL AMENDMENT.—The table of subtitles for title 31, United States Code, is amended by redesignating the item relating to subtitle VI as subtitle IX and by inserting after the item relating to subtitle V the following new item:

"VI. Cooperation Between Public and Private Sectors ...... 7501".

Section-by-Section Analysis
H.R. 3853: Economic Revitalization Act of 1994
Introduced by Congressman Herb Klein

(introduced: February 10, 1994)

Brief: **The bill authorizes the Secretary of the Treasury to promote job creation by participating in, and guaranteeing, portions of loans for businesses with potential for expansion and growth.**

SEC. 1. SHORT TITLE

SEC. 2. PARTICIPATION AND COOPERATION BETWEEN PUBLIC AND PRIVATE SECTORS TO STIMULATE ECONOMIC DEVELOPMENT

a) Amends Title 31, United States Code by adding a new "Subtitle VI--Cooperation Between Public and Private Sectors."

"SEC. 7501 DEFINITIONS"

1) A "*participating financial institution*" is any depository institution as defined in Section 19(b)(1)(A) of the Federal Reserve Act, or any other institution which meets the Secretary's criteria for cooperative economic growth and development financing projects, and whose application to participate is approved by the Secretary.

2) A "*qualified loan*" is a loan made to a business in good financial condition with strong potential for expansion and growth, which is experiencing difficulty in obtaining sufficient amounts of credit on terms which are economically viable for such busines due to prevailing economic conditions or other circumstances unrelated to the financial condition of the business The Secretary decides whether the loan will lead to an increase in jobs relative to the loan's size and stimulate economic growth in the area where the business is located, and whether it meets the underwriting criteria set by the Secretary.

"SEC. 7502: FINANCIAL PARTICIPATION"

a) Loan Participations and Guarantees

1) The Secretary of the Treasury may purchase a participation in any qualified loan from a participating institution, and may guarantee interest and repayment of principal of a portion of any qualified loan.

2) The Secretary may establish conditions for loan participations and loan guarantees, including minimum and maximum size limitations, reserve requirements for loan guarantees and subordinated participating interest requirements for participating institution,

3) The Secretary may imposing fees to cover costs incurred by the Secretary.

b) Maximum Amount Limitations on Participations and Guarantees

1) No federal loan participation may exceed more than 70% of any loan, and the Secretary may not guarantee more than 50% of the part of the loan which the Secretary has not acquired.

c) Securitization of Qualified Loans

1) The Secretary may issue securities backed by loans, but such securities are not an obligation to the United States. A loan guarantee expires when the Secretary acquires the loan for inclusion in a pool of qualified loans. The Secretary may establish standards for the composition of such pools, including geographic distribution, diversity in types of involved businesses, and variety in amounts of principal. No loan may exceed 10% of the total amount in the pool The Secretary may purchase qualified loans for inclusion in such a pool.

d) Annual Limitation on Aggregate Amount of Loans and Guarantees

1) Loan Participations--the Secretary may not acquire more than $100,000 per fiscal year in qualified loans and loan participations.

2) Loan Guarantees--the Secretary may not guarantee more than $200,000 per fiscal year in qualified loans.

"SEC. 7503: FINANCING"

a) Bond Authority

1) To avoid expense for the Federal Government or taxpayers, the Secretary may issue bonds.

2) Bonds may not be issued unless the insurance is fully guaranteed by an institution with the highest credit rating or the loan obligation is insured or underwritten by a letter of credit or insurance from such an institution

3) The Secretary must comply with terms and conditions imposed by an underwriter.

4) Securities are not backed by the full faith and credit of the United States.

"SECTION 7504 PARTICIPATING FINANCIAL INSTITUTIONS"

a) Standards and Application Process

1) The Secretary must establish standards and procedures for the designation of institutions for the loans

b) Advertising and Public Notice

1) The Secretary must provide notice of cooperative financial participation projects, as well as the names and addresses of the institutions participating in such cooperative projects.

Cosponsors (*original in bold*): Frank (Mass.), Schumer, Deutsch, Evans, Filner

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